REPORT

OF THE

COMMITTEE ON CO-OPERATION IN INDIA

1915

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(*Constituted under Government of India Resolution No.* 16-312-7, *dated October* 8*th*, 1914
Department of Revenue and Agriculture.)

———:o:———

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ABSTRACT REPORT

1. *Object of Abstract Report.*—In order to facilitate an appreciation of our views by persons to whom our Report may appear too detailed and technical, we have deemed it convenient to prepare an abstract dealing only with those points which are of larger importance. For this reason we do not propose to enter into great detail and our remarks in this abstract must be held to be supplemented by what we have said in our main Report. For the same reason we shall refer to agricultural credit societies only among primary societies, as societies of this nature form 13,715 out of the 14,566 primary societies which have come into existence since co-operation first obtained a footing in India in 1904.

2. *The Primary Society.*—A primary agricultural co-operative credit society is formed in its first stage by a number of individuals, not less than ten, who, because they are unable individually to obtain the credit which is necessary for their small agricultural operations either in adequate quantity or at rates or on terms of honest dealing which enable them to work at a profit, combine together to obtain this necessary credit on reasonable conditions. To effect this each becomes liable for the debts of the society to the extent of the whole of his assets. If in this combination there is a number of well-to-do persons who have joined, not to obtain credit facilities they already possess, but to assist their poorer friends, it is obvious that the addition they bring to the total of the assets of the individual members provides a substantial security to a creditor for any money lent to the society and used by the poorer members. If, on the other hand, all the members are of the same class, too poor individually to be trusted with any loan at a rate of interest which does not include a very large proportion of insurance to guard against the risk of non-repayment, it is equally obvious that the risk on the loans is in no way diminished from a purely material point of view by the combination. It will not, we think, be found frequent in practice in India for men of substantial position to join a society to support the credit of their poorer neighbours, and consequently it may be taken that the majority of societies belong to the latter class. It is true that even in that case the total assets of the members may, and generally do in practice, total up to a nominal saleable value, based on the rates obtained at occasional sales, considerably in excess of the total loans granted. It is, however, probable that in the event of the forced sale of a number or all of these assets, the amount realised would be found to be very much less than that at which they had been valued and might in many cases fail to cover the debts of the societies, the more especially if many such sales were taking place simultaneously within a small area. Hence it is clear that the creditors' real security consists not in the material assets of the members but in the ability and desire of the members to put the borrowed money to productive uses and to repay the loan out of the profits made thereby.

Each loan should mean so much earning capacity, so much producing power for the individual borrower. The guarantee consists in the expectation that each member of the society knowing that he stands to lose his all by the default of the others, will exert moral pressure on his co-members to ensure that they use for a proper productive purpose the money which they have borrowed and duly repay it at the

appointed time. The security in fact lies in the use of each loan for genuine productive purposes, the honesty and thrift of the members, the watchfulness they exercise over each other, the moral influence which they bring to bear upon dishonest or unthrifty co-members and the feeling of solidarity which is usually awakened by association for a common purpose. These represent the essential elements of co-operation in its perfected form and it is in the presence of these elements that the business aspect of co-operation also finds its best security. The societies, as we have said in our Report, must in the first place be *co-operative* and must further be *business-like*. The two qualifications are largely inter-dependent, but for the sake of clearness it will be convenient to deal with them separately as far as possible.

3. *Conditions necessary to make a society co-operative.*—The society to be fully *co-operative* must fulfil many conditions. The theory underlying co-operation is that weak individuals are enabled to improve their individual productive capacity and consequently their material and moral position, by combining among themselves and bringing into this combination a moral effort and a progressively developing realisation of moral obligation. The movement is essentially a moral one and it is individualistic rather than socialistic. It provides as a substitute for material assets honesty and a sense of moral obligation, and keeps in view the moral rather than the material sanction. Hence the first condition obviously is that every member should have a knowledge of the principles of co-operation, if this co-operation is to be real and not a sham. In the formation of a society the first essential is the careful selection as members of honest men, or at any rate of men who have given satisfactory guarantees of their intention to lead an honest life in future. As regards the dealings of the society, it should lend to its members only, and the loans must in no circumstances be for speculative purposes, which, so far from encouraging thrift and honesty, have exactly the opposite effect. Loans should be given only for productive purposes or for necessaries which, as essentials of daily life, can fairly be classed as productive. The borrowers should be required to satisfy their fellows that they are in a position to repay the loans from the income that they will derive from their increased productive capacity, or that by the exercise of thrift they can effect a margin of income over expenditure which will suffice to meet the instalments of their loans as they fall due. When a loan has been given, it is essential that the committee of the society and the other members should exercise a vigilant watch that the money is expended on the purpose for which the loan was granted. If it is improperly applied, it should be at once recalled. It is further advisable to add to the general supervision of the society the special supervision of individual members, by taking personal sureties in the case of each loan. In the event of any default by the borrower an instant demand should be made on these sureties. In the more general matters of the society's business there should, of course, be a committee of management with a president and a secretary, all of whom, except those who perform purely clerical duties and have no voice in the management, should be members of the society and give their services to it gratuitously. At the same time the ultimate authority should never be delegated to the office bearers, but should be retained in the hands of the members, who must continue to take a practical interest in the business of the society. With this object the constitution should be purely republican; each member should have one vote and no more in the general meeting and all business should be transacted with the maximum of publicity within the society. For example there should be kept in some place

open to the inspection of every member a list showing the loans issued to every member, the names of his sureties and the amount of the loan still unpaid, and each member should be required to know generally how this account stands: general meetings should be frequently held at which the accounts and affairs of the society are fully discussed and explained. The express object of the society should be the development of thrift among its members, with the hope too that this idea of thrift will spread in the neighbourhood. To effect this object loans must be given only when they are really necessary and desirable. Further the development of thrift and of a proprietary interest in the society should be aided by efforts to build up as soon as possible a strong reserve fund from profits. The society must also be encouraged to obtain as much as possible of its capital from the savings which its teaching and example have brought about among its members and their neighbours. With all these must go the elementary business principles of honesty, punctuality, proper accounts, diligence and payment when due. To ensure all this there must be adequate control from within, increasing vigilance and supervision by the office bearers and a continuous effort by members in learning the principles of co-operation, in meeting frequently, in watching others, in working hard and observing thrift, and in punctual repayment of their own loans as they fall due.

4. *Three special points.*—There are three matters in this connection which we consider to be of special importance:—(*i*) the starting of new societies and the size of societies, (*ii*) the period for which loans are granted to members, and (*iii*) the rate of interest charged on loans.

(*i*) *New Societies and their size.*—With reference to the starting of new societies we have recommended that the utmost care should be exercised in permitting the formation of a society and that the Registrar should only consent to register a society after he is convinced that its prospective members understand co-operative principles and duties and are prepared to act up to them and that there is a reasonable probability that they will do so. Any general spirit of official propagandism of primary societies would in our opinion now be a grave mistake. The movement has spread sufficiently to enable the villagers in most provinces to have an opportunity of seeing a society in being and to take steps to form a society of their own, should they consider that the inducements are sufficient. The members should be sufficiently acquainted with each other to know whom to trust and whom not to trust and to be able to exercise genuine supervision over each other's dealings. Consequently large societies are to be deprecated. Undoubtedly large societies do exist and prosper up to a point, but it will be found in practice that these depend for their existence on the efforts of the president or a small committee, and that the ordinary member takes little interest and has practically no voice in the management or affairs of his society. The co-operative safeguards are therefore absent and everything depends upon the honesty and business qualities of the committee. We have noticed moreover that it is from societies of this nature that the majority of complaints have come that members who are perfectly well able to repay are contumaciously refusing to do so. This is only to be expected when there is an absence of the co-operative elements of mutual watchfulness and supervision and of the exercise of moral pressure. It is impossible to avoid the conclusion that large societies of this nature must inevitably lose their co-operative character and degenerate into village money-lending concerns.

5. (*ii*) *Length of loans and their repayment.*—The fixation of the period of loans is a point which deserves special consideration. To take a common instance, a man, who has mortgaged his land and is working as a daily labourer, applies for a loan of (say) Rs. 400 to redeem that land and his fellow members come to the conclusion that, put in the possession of the land, he can by the exercise of due thrift save Rs. 150 a year. If a loan of Rs. 400 is granted on condition of repayment by two instalments within two years, the result must be to drive the borrower again into debt by forcing him to raise elsewhere the balance required to meet these instalments when they fall due. If instalments have been fixed to which there is admittedly no intention of adhering, the arrangements of the society for repaying its own borrowings must necessarily be stultified, while other borrowing members who may very well be in a position to pay, are encouraged to resort to procrastination and evasion. On the other hand a well-to-do man, though he might reasonably be granted a loan to replace plough cattle which had died, would probably be in a position to repay that loan sooner than another man whose income and necessary expenditure afforded a smaller margin. Conversely, by allowing three years for the repayment of a loan granted for seed grain, which should properly be repaid after the harvest, direct inducements to extravagance and unthriftiness are placed in the way of the borrower. It is, therefore, necessary that each society before granting its loans should consider carefully the time within which, having regard to the purpose of the loan and the circumstances of the borrower, actual repayment can be properly expected. When the period has been fixed, it should be rigorously enforced except in the event of harvest or domestic calamities. The system of extending loans as a matter of routine is one of the greatest dangers that exist in the co-operative movement, in that it paves an easy way for procrastination and eventual default. It is moreover facilitated by the fact that, if a loan is formally extended by the society, even for the sole reason that the borrower refuses to pay, it does not appear in the returns as an overdue loan. It is consequently possible for the nominal assets to include loans which should really have been written off long before as bad debts. It is difficult to devise any system of returns which would differentiate extensions, and the fact of improper extensions having been given can best be elicited by a careful inspection of the society. When the practice comes to light prompt action must be taken, but the real remedy lies in the prevention of the growth of the practice by the society's seeing that no loans are granted on conditions of repayment within a period, inside which no reasonable person could expect the borrower to repay. In this connection attention should be paid to the fact that agricultural finance must be based on the agricultural cycle, and this cycle, though usually of the duration of one year, may occasionally be a matter of months, but is frequently a matter of from two to five years. Where climatic conditions are such that in a one-crop area failure of the harvest is practically unknown, agricultural finance is of course based on repayments at harvest within the twelve months. Where however the climatic or other factors render harvests precarious, the agricultural class must be financed with regard to a period of years which will cover the average cycle comprising good, bad, and indifferent seasons. Thus in an area, where one good, one bad, and two indifferent years form the ordinary cycle of seasons, the agency financing the cultivator does so on the assumption that the loans will be repaid in full after the first good harvest, which may of course not occur until the fourth year. This has been from time immemorial the

ordinary practice of the money-lender, and it seems advisable to enter this caveat, as there is a tendency to imagine that agricultural finance is always worked on a twelve months' basis.

6. (*iii*) *Rate of interest on loans.*—As regards the interest at which loans are granted to the members of societies it has sometimes been urged that in order to stimulate the movement and give its full benefits to members of society, the rates of interest should be made as low as possible. This point of view ignores the dangers of unthriftiness and extravagance incidental to too facile credit. It is sound policy for a society to start by lending to members at rates which are still substantial, though very much lower than those at which, with their precarious credit, they could borrow from the local money-lender. Such rates we have found in many places to be as much as 36, 48 or 60 per cent. per annum, and in these places a society may very well begin by charging 15 or 18 per cent. We have, on the other hand, been told in some places that ample money can be borrowed there from local money-lenders at 8 or 9 per cent. per annum or even lower rates. We cannot however help thinking that money at this rate is available only for those who have ample realisable material assets to offer as security, and not for those agriculturists whose emancipation from their present depressed condition is the object and justification of Government's expenditure on co-operation. In the charge of a high rate of interest on loans to them there is no hardship imposed on members, inasmuch as every penny of profit made on that rate is retained for their use and benefit in the shape of a reserve fund, which can be later employed to enable loans to be made at very much reduced rates, when a substantial reserve has been accumulated and the members have thoroughly learnt the use and value of money. The matter is one which we think should be under the very careful supervision of the Registrar who should have full powers as regards controlling the rates at which money is lent to members.

7. *Business aspect. Sources of Capital.*—Turning to the more purely *business* aspect position of primary societies, we may note that they rely for their funds partly on external and partly on internal sources. In the former may be included deposits from members and non-members and loans from central financing institutions. In the latter the reserve fund and (in some Provinces) the share capital.

(*i*) *External Capital. Deposits.*—The amount of capital hitherto obtained in the way of deposits has on the whole been disappointing. As long as the deposits received are of a truly local character and are made from confidence in the working of the society, every effort should be made to secure them, both from members and from non-members. We look to a considerable increase in deposits as an essential to real progress in the future.

Loans to societies—how determined. Use of Unions.—For the present, however, the main source of outside capital in primary societies consists not in deposits but in loans from central co-operative financing agencies, to which we shall allude further below. To such agencies applications by primary societies for loans are generally made, and such an agency on receiving a request for a loan has to consider its treatment. In some cases the request is received through the office of the Registrar who has already,

after receiving the reports of his subordinates, satisfied himself as to whether the loan may safely be given and has endorsed his sanction for that amount on the application. In some cases the orders on the loan are passed by the central financing institution itself. In such cases it must arrive at a decision based upon the reports of the staff which it keeps for that purpose or on the opinion of members of its directorate with local knowledge. In other cases, but not generally, a society before obtaining a loan has to be admitted to membership of a Union. Such a Union is a body of which the only members are the primary societies within a circle of a radius averaging generally about 8 miles and at the deliberations of which each member of the society has a number of votes proportionate to the number of its own members. The duties of the Union are to advise on the grant of loans to its constituent societies and to supervise the working of these societies. Being composed of societies all drawn from the same limited area who are or should be also shareholders in the central financing institution, a body of this kind may safely be presumed to have a fairly intimate knowledge of the affairs of its constituent societies and of their individual members, and is therefore in a position to give a most useful opinion as to the propriety of any loan asked for by a society, and is also in a position to supervise the use of the money borrowed and the general working of the society, while its member societies' interests in the central financing institution should ensure a due regard for the latter's welfare by the refusal to recommend any loan regarding which there was any doubt. It is moreover customary to introduce a further element of caution into a Union's recommendations and to give each member society a direct interest in keeping other societies up to the mark by making it liable to a certain limited extent to make good to the central financing institution any loss which such institution may have incurred from the default of a society to repay a loan recommended by the Union. In a province in which a Union system obtains any application for a loan by a society must first be submitted to the Union which will bring to bear upon it a scrutiny, based upon personal knowledge and sharpened by financial responsibility, as to the necessity and productiveness of the loan, the character and position of the members of the society, if new, its past history and behaviour, if of some years' standing. If the result of this scrutiny is unsatisfactory, the loan is not recommended or a loan is recommended of a very much diminished amount. The central financing institution, provided it has funds available with due regard to the claim of other Unions, would in general rarely refuse to make a loan to the full extent recommended by a Union.

8. *Repayments of loans made to societies.*—The loan, when sanctioned, is issued to the society under conditions varying in different provinces as to repayment of principal and payment of interest. In most cases the interest has to be paid regularly each year or half year, but the practice differs widely as to repayment of principal. In some cases it is repayable by instalments spread over periods varying from one to ten years: in others it is repayable in one lump sum after a term of years. It would probably be safe to say that on an average most loans from central financing institutions to societies are repaid within three to four years, whether by yearly instalments or in one sum, and that the usual rate of interest charged to the primary society is 7 to 9 per cent. per annum. It is usually left to the society after it has received the loan to distribute it among its members in such proportions and on such terms as regards the period of repayment by them as it thinks fit; and it is expected that the central financing institu-

tions should recover repayments from the society corresponding to the repayments made to the society itself by the members.

We have heard it urged on several occasions that the real test of efficiency in a society is punctual repayment and that if a society is making repayment punctually it may safely be presumed to be in a satisfactory state. It is certainly true that a good society will always be punctual in its repayments, but the converse proposition cannot be admitted. To begin with, a society may be making repayments to the central financing institution from deposits entrusted to it from time to time and may be making no recoveries at all from its members. Or again its members may be misapplying or squandering their loans, while repaying punctually to the society with money temporarily provided by a friend or money-lender whom they recoup from the balance of a fresh loan, obtained from the society for some ostensibly productive object. As a consequence a society which is negligent in supervision over its members may be receiving regular repayments from them and repaying regularly to the central financing institution, while its members may be sinking further into debt to the extent of money which they have borrowed and wasted. This state of affairs can only be ascertained by a close examination of the society's books, coupled with a careful enquiry on the spot as to the affairs of each member and the manner in which he has utilised his loans. In the supervision of a society the greatest care should be taken to see that the repayments are genuine, and there is grave danger in placing undue reliance on the mere statement of a society's repayments to the central financing institution.

9. *Assessment of credit.*—It is part of the business of the Central Financing Institution to see that the credit of the society should be duly assessed, that is to say that the total external borrowings of a society whether as deposits or as loans should be fixed annually at a certain sum. Without a systematic arrangement of this kind no proper relation can be maintained between the credit-worthiness of the societies and the liabilities they incur, and we consider the point of such importance that, for the present at least, we regard it as essential that the Registrar should maintain a control over the total amount that a society may borrow from every source, and that a maximum limit should be fixed for such borrowings, to be varied from time to time as the society shows its growing strength or the reverse. When the limits for borrowing have then been fixed any deposits which would cause a society's borrowings to be in excess of that limit would have to be refused. Deposits within that maximum should only be taken on condition that the society itself retained sufficient liquid assets to meet the claims of depositors or, as is more suitable, made an arrangement for the necessary cover with a central financing institution. The maximum borrowing limit would, as above noted, include borrowings from a central financing institution as well as from outside depositors and members, while loans from one society direct to another should be precluded altogether. If a society's temporary requirements are substantially less than the borrowing limit assigned to it and happen to leave it with surplus funds, it should place these with the central financing institution.

10. (*ii*) *Owned capital. Shares and surplus assets.*—The internal sources of capital in societies are, as above stated, the share capital and the reserve. The bulk of the societies, at present, have little or no share capital, and shares constitute a substantial

part of the capital in four Provinces only. It is hard to expect poor peasants to subscribe anything large in the way of share capital, but when this can be obtained, as it usually is, in instalments, it forms an excellent means both of inculcating thrift and of providing a form of capital owned by the society. For the bulk of the 'owned' capital, however, the society must look to its reserve fund, that is, to the surplus assets which it accumulates from its annual profits. The amount of these surplus assets depends mainly on the difference between the rate at which the society borrows and that at which it lends, and until the amount has reached a substantial figure it is a mistake to reduce unnecessarily the rates at which money is lent to members. If arrangements are made for maintaining a resource available for meeting deposits, the surplus assets of a society can most suitably be employed in the business of the society.

11. *Audit and supervision of societies.*—It will be seen that in order to be fully co-operative and thoroughly business-like, a society must live up to a high standard. Considering the class of people who compose the bulk of the agricultural societies it is useless to expect the maintenance of such a standard without frequent audit and unceasing supervision from without. It is difficult to exaggerate the importance of such audit and supervision. Without them a good society may soon degenerate and a bad society may soon come to ruin. The work of audit and supervision should in the first instance be vested in the higher co-operative institutions, Unions and Central Banks, but the ultimate responsibility for these duties must rest with the Government as represented by the Registrar. There is indeed no reason in our opinion why the whole of such supervision and audit should fall on the Government staff and be met at Government expense. A full audit by a Government staff of the accounts of each society is essential, but this might take place once in two or three years, the audit in the meanwhile being conducted either by the Unions, where these exist, or by the central financing institutions. Constant supervision is part of the duty of a Union, and where there is no Union it should be incumbent on the central financing institutions to carry out the duties of supervision and to maintain an efficient staff for the purpose. The cost of this can fairly be met by the societies either by a direct contribution or by the central financing institution's charging on loans to them a rate of interest which will cover the expenditure. At the same time we hold that the Registrar cannot abrogate his respon-sibility in the matter of directing and supervising this co-operative audit and supervision and that he must see that the influence of central financing institutions is not misdirected or applied in wrong, improper or mischievous ways, and must maintain an efficient direction and control to ensure that the movement is kept on co-operative lines and is confined to these lines. The exercise of due care before formation and the ensuring of full and proper supervision after formation we consider indeed the most important part of the Registrar's duty. If the Primary Societies are sound and solvent, the whole provincial edifice must be sound unless there is instability in the higher finance. If the Primary Societies are unsound, if they are based on mere money-lending and not on co-operative principles, no matter how sound the higher finance may apparently be, its assets will be locked up in indifferent or bad securities and sooner or later serious trouble, if not failure, is bound to result.

12. The figures below show the rate of growth of primary societies of all kinds in the last eight years:—

Year	Number of societies	Number of members	Working capital
			Rs.
1906-07	832	88,582	....
1907-08	1,350	1,48,698	41,75,211
1908-09	1,948	1,79,144	72,25,119
1909-10	3,397	2,20,676	1,01,29,232
1910-11	5,262	2,99,376	1,53,31,702
1911-12	8,057	3,91,957	2,35,88,358
1912-13	11,548	5,13,851	3,33,01,603
1913-14	14,566	6,61,859	4,64,27,842

Need for increased control.—No one reading these figures can fail to be struck by the magnitude which the growth has already attained or to be convinced that the movement has taken firm root. Societies are now so spread over all parts of India and the advantages which their members are obtaining are so patent, that it is impossible to doubt that the movement will eventually attain dimensions compared to which its present size will appear negligible. As a consequence there will undoubtedly arise through the medium of co-operation a powerful organisation formed of these agricultural classes who are at present inarticulate through want of education and cohesion. The potentialities of such an organisation, its advantages and dangers, and the possibility of its perversion to wrong ends, if it is allowed to develop without adequate supervision and proper control, must be apparent to all. Further there will be in use in these societies a very large sum of money, amounting to many millions of pounds, mainly the property of thrifty agriculturists, tradesmen and men of the professional classes on whom the loss of this money would inflict an irreparable blow coupled with far-reaching consequences. This money will be lent to individuals of whom many do not own the material assets to provide the requisite security, and to sell up whom on any large scale would necessarily involve serious consequences. It must be obvious then that, if loans are not applied to productive or necessary objects and repaid promptly from the profits so earned, if there is not in each member the desire and intention so to use his loans and so to repay them and to see that each of his fellow members does likewise, there is a grave danger of the creation of a gigantic credit fabric which, having no real soundness within, may eventually collapse. On the other hand, with a sound co-operative system carefully restricted to its legitimate objects, there are innumerable potentialities for increase of wealth and prosperity to the country from a peasantry freed from the crushing load of debt, obtaining on reasonable terms the money which it requires from time to time for its agricultural operations, and using for these operations improved and more scientific methods.

We do not wish to pose either as alarmists or Utopians, but we think that the importance of the movement, its potentialities for good or evil, should be recognised to the full. Of the first danger,—perversion of the co-operative movement to other objects,—we have as yet seen little or no signs, but we think that this possibility should always be borne in mind and carefully guarded against. The second danger, the lack of a true spirit of co-operation, is at the present moment much the more real. We regret to have to say that the conclusion has been forced upon us that in the majority of cases primary societies in India fall short of the co-operative ideal. Speaking

generally, even allowing for the backwardness of the population, there has been found a lack of true co-operation. The necessity for developing a truly co-operative system rather than cheap money-lending and the danger involved in inviting deposits from the public for pseudo-co-operative institutions are matters that have been to a serious extent overlooked. Rapid extension has resulted in the growth of primary societies to an extent with which the Registrar and his staff were unable to cope, and faults have grown up which were inseparable from due lack of care in formation and inadequate means of supervision. At the same time these faults are by no means ineradicable, the societies are young and composed in the main of good material, and with proper care and supervision are capable of being placed on the right lines.

The remedy in both cases lies in the supervision and control of the primary societies by a registering staff adequate and efficient, especially in its higher branches. We do not mean by this that the Registrar should assume the detailed direction of societies. These must be left, as hitherto, to manage their own affairs, but the Registrar must be in a position to know how they are managing these affairs, and to take action in case of need. In addition to being able to acquaint himself with the working of the societies under his charge, the Registrar must be able to give and supervise that teaching of co-operative principles without which proper co-operation cannot be expected to grow. For this work the present staff of Registrars is quite inadequate and we trust that a realisation of the importance of the subject will lead to a material increase in the superior registering staff. Our proposals on the subject are given in detail in the main report and are briefly that, in all the major provinces, there should be in addition to the Registrar at least one Joint Registrar holding a status equivalent to that of Collector, and that in provinces where the number of societies is large there should be approximately one superior controlling officer for each thousand societies. The effect of this would be to add three superior whole-time officers to the registering staff of the Punjab, two to that of the United Provinces and the Central Provinces and one to each of the other provinces. It is essential that the officers should be picked men with special qualifications for the work, that their remuneration should be consonant with the arduous nature of their duties and that it should be recognised that the work of Registrar is in the importance of its nature and the experience which it affords equivalent to the work of a Collector and renders an officer equally fitted for executive promotion.

It is also important that the district officer, while not allying himself with the movement in any official capacity and not exercising any of the formal powers of a Registrar,—duties for which he might have no inclination and which the press of other work might force him to allow to fall into routine,—should nevertheless realise the importance of co-operation and its possible effect for good or evil on the district under his charge, and should keep himself thoroughly in touch with the progress of the movement in his district.

13. *Central and Provincial Banks.*—As regards the higher financing institutions, it may be mentioned that in Burma, where conditions are somewhat exceptional and there is a fully organised Union system, the primary societies received loans direct from one bank at Mandalay, except in two districts where owing to difficulties of communication local banks have been formed. These banks however are supported by the Mandalay Bank, which is also responsible for seeing to their affairs being kept

in proper condition, and for co-ordinating and controlling the whole co-operative finance of the province. In all other Provinces except Madras and Bombay a system exists under which the provision of funds to primary societies is done by a number of local central financing institutions the business of which covers an area sometimes conterminous with a district, sometimes with a sub-division and sometimes even smaller. Each of these institutions is an independent society registered under the Co-operative Societies Act with limited liability. In Bihar and the Central Provinces these institutions are formally federated under an apex bank, known as the Provincial Bank, which provides a certain amount of the capital of its constituent banks, balances their excesses and deficiencies and maintains a general control. In Madras and Bombay the large banks at headquarters, while confining their business mainly to lending to primary societies throughout the whole or part of the province, have of late tended to assume certain of the functions of apex banks by lending to and receiving surplus funds from some of the local central financing institutions. Their position however as regards the latter has not been defined, they exercise no control and do not occupy a recognised position as the apex of the provincial co-operative finance. In the remaining Provinces no apex organisation of any kind at present exists and the financial edifice consists of a number of independent local financing institutions without any co-ordination.

The local financing institutions throughout India, of which there are nearly 200, are in the various provinces designated by various names, but to avoid any inconvenience of nomenclature we have in this report applied the single term " Central Bank " to all local financing institutions concerned solely in the direct financing of primary societies, within an area sufficiently limited to allow them to exercise also the duties of supervision and control over these societies. Under this head will come all the central financing institutions except the five mentioned below. The term Provincial Bank will be applied to the apex institutions in each Province which are formally constituted to co-ordinate and control the finances of Central Banks and deal only with such banks and not with primary societies. To this class belong the Provincial Banks of Bihar and the Central Provinces. This leaves in doubt the position of the Central Banks of Mandalay, Madras, and Bombay. In Burma where the system, as explained above, is special, the Bank of Mandalay can appropriately be recognised as a Provincial Bank. The Banks of Madras and Bombay do business over too large an area to enable them to discharge the functions assigned to Central Banks, while they have not yet been placed in a position to enable them to take up the position of apex banks. It will be more convenient to deal with all classes of financing institutions together, merely predicating that the remarks in paragraph 14 immediately below are not intended to apply to the five above named banks.

The composition and method of investment of the capital of all these institutions was on the 1st January 1915 as follows, the figures being given in lakhs of rupees. 189.43 was held on deposit from individuals, of which 8.01 was on current account and 4.66 for short terms of less than three months. 103.70 was for periods between three months and one year, and the balance of 73.06 was for periods exceeding one year or on one year's notice. Debentures were 6.37, and loans from Government 3.73. Loans and deposits from other co-operative societies were 46.54, of which 2.28 were on savings bank account. Loans from Presidency and Joint Stock banks amounted to 20.99. Share capital and reserve fund totalled 47.07. Against these liabilities 11.04

was held in actual cash and 10.16 in outside securities of which however a small portion had been pledged to the banks. The remainder of the assets was invested in loans to primary societies and other central institutions and of this one-third to one-fourth might normally be expected to be repaid each year. A small amount of this is however still owed by individuals who had the right of borrowing from some of these institutions. There are further available undrawn amounts of cash credits given by Presidency and Joint Stock banks amounting to 20.27. On the other hand the 20.32 already advanced by these banks has been given on terms which practically all admit of repayment being demanded within the year.

Of their profits these banks are by law compelled to put one-quarter to their reserve fund, and the amount of dividend which they may pay to their shareholders is limited. Some banks keep current accounts both for their shareholders and for outsiders and a few still lend money to individual shareholders as well as to societies. It may be generally said, however, that the banks confine their business to receiving deposits from the public, generally for fixed periods, and to lending the money so obtained to primary societies and in a smaller degree to Central Banks.

14. *Central Banks—their powers and constitution.*—As regards Central Banks proper doing business generally in an area not exceeding that of a district, we think that often they have been allowed too little discretion in the matter of making loans to societies and that full use has often not been made of this important link in the co-operative chain for the purposes of supervision and audit of societies. For the latter work the most suitable machinery is undoubtedly the Union system, but we fully realise the strength of the objection raised in many provinces that it may be some time before a sufficient spirit of autonomy is developed among the members of societies to enable that system to be introduced. In the absence of such a system the entire supervision of the primary societies within its area must be undertaken by the Central Bank, subject to the advice, general supervision and control of the Registrar. This duty a Central Bank is in every way fitted to fulfil, provided its directorate has been suitably selected. It is also necessary that the Central Bank should be in position to enforce its authority against errant societies by the refusal or curtailment of loans. We have found that in many cases it has been the custom for an application by a society for a loan to be adjudicated on by the Registrar or one of his staff, and for the work of the Central Bank to be limited to paying over the amount of the loan sanctioned, if it had in hand the money to do this. This procedure seems to be entirely wrong. The money is the property of the Central Bank which is responsible for it to its depositors and share holders, and as it has the responsibility in the matter, so it should have the discretion. We have already expressed the view that the Registrar should impose a limit beyond which a society should not borrow, but we think that within this limit the Central Bank should have full power to deal with all applications by societies for loans, and that with this should be coupled the duty of supervising the societies to which it makes these loans. It is however necessary that the constitution and directorate of the bank should be such as to enable it to discharge these functions to the best interests of co-operation. If a bank is frankly a profit-seeking capitalistic concern, its interests are in few respects coincident with the interests of societies which it is likely to regard mainly as a means of profit and in the real welfare of which it has little concern. A bank of this nature is further less susceptible to control. To Banks where the

management is provided entirely from the members of the constituent societies the main objection is that they are likely to fail to enlist the assistance of the commercial middle classes, who alone are at all capable of conducting a bank of any dimensions and on whose assistance and co-operation the financial support of other members of their class depends. If this difficulty could be got over, there can be no question that banks of this class are the most advantageous and economical, since there is no necessity for them to do more than pay working expenses. Moreover it is in the interests of co-operation that this link in the co-operative chain should be composed of societies themselves and not of outsiders. Consequently it is to be hoped that at some future date the agriculturist will have developed the indigenous ability to provide for Central Banks an efficient management which will command the confidence of the depositing classes, and in some places there are already signs that, given the opportunity, men with the necessary qualifications will be forthcoming. This ideal must however require many years for realisation and we think that at present the best constitution is undoubtedly to be found in banks where the directorate is drawn partly from men of the commercial and professional middle classes and partly from the leading members of societies, each director representing his own class of shareholders and providing the elements in which the other class is lacking. Care should however be taken to see that the ultimate control of the bank rests with the society shareholders, since this prevents any possibility of exploitation of societies. It should also be made clear that the ideal aimed at is the eventual transition of the bank to a co-operative constitution when the only shareholders will be societies.

15. *Need for adequate fluid resource.*—Whatever be their constitution the same principles must apply to all higher financing institutions as regards sound finance. It has already been stated that these banks raise the major portion of their capital by inviting deposits from the public. A portion of these deposits are on current account or for short periods not exceeding three months; a portion is on fixed deposit for terms exceeding one year, but more than half, in fact 54.7 per cent., is for periods ranging from three months to one year. The money so obtained is lent out to societies, and it may be said that, taking an average all round, it may be expected that each individual loan will be repaid, under normal agricultural conditions, in instalments spread over three to four years. If pressure were put on societies an increased amount could be forthcoming, but only at the cost of dislocating the arrangements of these societies and probably requiring their members to have recourse to the money-lender. Again a year of agricultural scarcity may render societies unable to make any repayments in that year and will probably make it necessary to accommodate them with loans in excess of their normal annual requirements, if their members are not to be required to go to the money-lender. It is thus obvious that, if the banks are to be in a position to repay deposits when due and demanded, they must equilibrate their finances with some care and provide an adequate amount of liquid resources. So far the actual necessity for doing this has not arisen in any marked degree owing to the very great increase in the last few years of the deposits made in these banks. The amounts deposited have been each year largely in excess of those of previous years, and any deposits withdrawn have been met out of new deposits. Moreover a custom has lately grown up of obtaining advances from commercial banks either in the shape of loans of definite amount or of cash credits. Some of the more prudent banks have

utilised the cash credits so obtained only to a limited extent, leaving the balance available to be drawn upon to meet calls by depositors. Others have drawn and employed in loans to societies practically the whole of their credit. In some cases the apex co-operative bank of the Province has undertaken to support its central banks, but this support has generally been dependent on a cash credit it has itself obtained from a commercial bank. It may be said however that in practically all cases, with the exception of undrawn cash credits on commercial or apex banks, no central bank has retained or provided any liquid assets, beyond a small and quite inadequate supply of cash, to meet demands by its depositors or to provide for seasons of agricultural distress.

This has been due in some cases to a desire for dividends: in others to a readiness to take a present risk so as to secure eventual safety by a reserve fund built up out of larger profits: in others a too rapid growth of societies has imposed work on the Central Bank in excess of its financial capacities: in others it has been due to the fact that money is lent to societies at rates so near to those paid on deposits as to allow no margin for the provision of fluid resources: in others it has been frankly stated that in the event of difficulty over fluid resource they look to Government for assistance and their only duty is to see that their investments are sound and that there is no possibility of eventual loss. Whatever be the reason, there can be no question that the matter of adequate fluid resources has been generally neglected.

Those banks which have secured themselves by undrawn cash credits are distinctly in the minority, and at the same time the probability of the permanence of the arrangement must be open to serious doubt. The Joint Stock banks are not likely to increase materially the extent of the business which they are doing with co-operative banks, and it cannot be to their interest to keep always available for the use of co-operative banks large sums of money which they may be called upon to disburse very likely at a time when they themselves are most in need of them.

16. *Illustrations.*—As an illustration of our remarks on the subject of central banks we append the balance sheets, drawn up on 1st January 1915, of two banks which are not unrepresentative of many institutions of this class. The figures in each case have been reduced so as to show each bank working on a one lakh basis.

Liabilities	Rs.	Rs.
Deposits—		
From Individuals:		
On current account	2,590	
Due for repayment in 1915	69,050	
Due later	15,340	
From other societies	4,650	
		91,630
Share capital paid up	5,300	
Reserve Fund	870	
Dividend equalisation fund	1,200	
Undistributed profits	1,000	
		8,370
Total		1,00,000

Assets	Rs.
Cash in hand or bank	2,600
Loans to societies of which repayment is expected in 1915	15,000
After 1915	82,000
Other items	400
Total ..	1,00,000

Liabilities	Rs.	Rs.
Deposits—		
From Individuals:		
On current account		
Due in 1915	4,670	
Due later	25,440	
From other societies	7,260	
Loans from Joint Stock banks	23,000	
	19,760	
		80,130
Share capital paid up		
Reserve fund	16,000	
Dividend unpaid	2,500	
Other items	650	
	720	
		19,870
Total		1,00,000

Assets	Rs.
Cash in hand or bank	4,160
Loans to societies of which repayment is expected in 1915	24,000
After 1915	68,150
Other items	3,690
Total ..	1,00,000

It will be seen that in both cases the banks do current account business and that the amount of cash in hand is practically equivalent to what they owe on current account. In both cases the bulk of their deposits is on a one year's basis, while the terms of their loans to societies are considerably longer. In the one case the contingent liabilities of the current year are far in excess of the repayments they expect to receive. In the other they are nearly equivalent, but in neither case does any permanent provision exist to meet withdrawals of deposits unsupported by repayments from societies which might very well fail to come in at the time when wanted or might have to be postponed altogether. The second bank has a cash credit with a Joint Stock bank to the amount of Rs. 25,000, but it has already drawn and lent out Rs. 19,760 of this, and will probably have to utilise or keep in reserve Rs. 1,160 more to pay dividends and hold against its current account. If the Joint Stock bank is prepared in a time of stress to continue its support and does not on the other hand press for repayment of its loan of Rs. 19,760, the central bank will have some Rs. 4,000 available to meet fluctuations in its deposits in the current year. It will be noticed however that this bank holds a very large amount in deposit from other societies, of which a certain proportion is probably deposits passed on by other central banks which have no immediate use for them, and the bank should be prepared also for considerable calls on this account. The first bank is obviously purely capitalistic. It works on a very small share capital and considers the provision of dividend more important than the building up of a strong reserve.

On the other hand we append below the balance sheet of a third bank which seems to us to approach more nearly to a standard of safety.

LIABILITIES	Rs.	Rs.	ASSETS	Rs.
Deposits—				
From Individuals:				
On current account ..	3,600		Cash and Government paper	11,600
Due for repayment in 1915	21,000		Loans to societies of which repayment is expected in 1915	24,000
After 1915	60,000		Later	64,000
From societies	3,800		Other items	400
From Joint Stock banks	600			
		89,000		
Share capital paid up	8,000			
Reserve fund	2,000			
Suspense (mainly for reserve fund)	1,000			
		11,000		
Total		1,00,000	Total ..	1,00,000

In this case the deposits are well distributed, and as a matter of fact nearly a half of the amount of Rs. 64,000 due after 1915 does not fall due until 1918, while the business of the bank is so arranged as to make the repayments by societies coincide with the terms of the deposits. The money taken from societies is small in amount, and is moreover the property of debtor societies and is not required by them to meet depositors. There is consequently, after providing for current account and repaying the Joint Stock bank, a balance of Rs. 7,400 to meet any withdrawals of deposits this year even if societies are unable to make any repayments.

The two first illustrations which we have given above will probably convey more clearly than any lengthy description the position of a large number of these

banks. Put shortly, the conclusions at which we arrive as regards these banks generally are that their management is honest and, within its lights, efficient and that no fault is to be found with the keeping of accounts or the disposal of money. With the exception that some of them keep current accounts for outside constituents, their business is practically limited to lending to primary societies and, so long as these remain solvent and their members are able and willing to pay, their creditors need have no anxiety that they will not eventually get their money. At the same time there is certainly no assurance that, if even a not very considerable number of depositors wanted their money simultaneously, it would be forthcoming on the due date. At present a large proportion of the depositors have been the shareholders and directors and their relatives who, even when wanting their money, may often be persuaded to extend their deposits rather than embarrass the bank, but with the extension of the co-operative movement the proportion of this exceptional class of money must necessarily become less, and in any case it does not seem right that institutions of this nature should invite the deposit of public money unless they are in a position to fulfil scrupulously and punctually their obligations to their creditors.

17. *Need for Provincial Banks.*—Obviously the first remedy for this state of affairs is the co-ordination of provincial co-operative finance in each province in a strong apex bank, or Provincial Bank, and to insist that Central Banks shall have all their financial dealings with other societies except their own affiliated primary societies, through that apex bank. This will put an end to the system, which is a very real source of danger, of Central Banks investing their temporary surplus assets with each other. The money may be lent out on terms which do not make it available when wanted and the interlocking of their finances may very well result in the fall of one bringing down unnecessarily a number of others in its train. The Provincial Bank might also be the sole medium in the province for dealing with Presidency and Joint Stock banks. Co-ordination and control in finance is essential and this can only be done within a province by an apex bank possessing the necessary authority. A Provincial Bank can also arrange more economically for the provision of fluid resource, a subject of which we shall treat below. In Bihar and the Central Provinces Provincial Banks have recently been constituted. In Burma the provincial co-operative finance can very well remain with the Mandalay Central Bank. If the Madras and Bombay Central Banks are to be placed in the position of Provincial Banks, their constitution will require some modification and they will require to be in a position to enable them to carry out the duties of apex banks. In the other larger provinces Provincial Banks should be formed. When Provincial Banks have been duly constituted, the Central Banks in the province should be affiliated to them for the purposes of control and many of the smaller and weaker banks might with advantage be dissolved or amalgamated with other banks.

18. *Difficulties in maintaining standard of fluid resource.*—There remains however the main difficulty in the matter of these banks, that they take money for comparatively short periods and invest practically the whole of their capital in loans for comparatively long terms under conditions which render it probable that in any one year they may receive practically no repayments and which may preclude them from calling up or realising these loans if they themselves are pressed. If their only assets are the pro-notes of societies, they are not likely to be able to raise much on these in the ordinary

market to repay their depositors. It seems necessary that these banks should equilibrate their business: that they should lend out to societies for such periods as to enable them to count each year on repayments from societies somewhat exceeding the amount of deposits which fall due that year: and that they should in addition maintain a fluid resource in the shape of cash or easily realisable securities. As regards the amount of this fluid resource we have had considerable difficulty in making recommendations. Co-operative banking is new in India and is in many ways entirely different to joint stock banking, and there are consequently few reliable data to go upon, but we think that each Central Bank might be required to hold an amount in liquid assets equivalent to the half of the total of all fixed deposits, which it might under the terms of such deposits be called on to repay within the next twelve months. In cases where current or savings bank accounts are kept practically the whole of the amount of such accounts would in addition have to be covered. In the case of the Provincial Bank the same conditions would apply, but it might be required to hold liquid assets to cover it for a period of one-third of the next twelve months, since its money is invested over a much larger area than that of Central Banks and repayments are much less likely to be affected as a whole. Also, if the liquid resource of all the Central Banks is, as would ordinarily be the case, maintained by the Provincial Bank, it would appear to be possible to reduce the fraction to one-third, as it is less likely that all banks in the province would require assistance simultaneously. We have taken the period of six months as being the probable duration of a co-operative crisis. At the same time we recognise that the adoption of the conditions we have proposed may be difficult. Deposits for periods as long as are required for agricultural loans may not be obtainable even on much dearer terms. We have proposed the imposition on Central Banks of the maintenance of a staff for assessment of credit supervision and audit, and the cost of this will have to come out of the bank's profit or be met eventually by an increase of the rates at which members of societies borrow. The further cost of the maintenance of a fluid resource will have to be similarly met. In provinces where the rates at which deposits are obtained and at which members of societies borrow allow of a large margin, no immediate difficulty need be anticipated, but there are some provinces where the margins are small already and there is also everywhere a tendency for margins to contract. Where the margin cannot be increased the only alternative is to continue in the present state of financial instability or to provide an agency which would discount the pro-notes of societies for co-operative banks in times of need, and obviate the necessity of their keeping liquid resources. It is more than doubtful whether this agency could be found in the Provincial Banks, as these institutions are unlikely to be able without a guarantee from Government to raise money at rates substantially lower than those at which Central Banks borrow. The problem has already been experienced in all European countries and has been solved, in nearly every case where co-operation has been successfully established, by the State's arranging for the discount of co-operative paper with the ordinary state bank or with a specially constituted co-operative state bank.

19. *Further suggestions.*—There are a few further points on which we may touch here. We have recommended that the staff of Registrars should be increased, and it seems advisable that the cognate subjects of agriculture and industry should be co-ordinated under one head in each province, and we have therefore also recom-

mended the appointment for this purpose, as opportunity offers, of a Development Commissioner who would have the necessary time and practical knowledge to devote himself entirely to the supervision of these branches of administration and whose recommendations and advice would carry due weight with his Government.

Although the subject of co-operation is, like other branches of administration, one primarily for each local Government to deal with inside its own area, it is a question whether the Imperial and inter-provincial interests involved have not now grown so important as to justify its being treated on the same lines as education and agriculture by the appointment of a co-operative Adviser with the Government of India. The advice and counsel of such an officer would be very valuable to Provincial Governments, Development Commissioners or similar officers, and to Registrars themselves.

Lastly we think it right to inform Government that we found during our tour that considerable misapprehension existed as to its responsibility for the stability of co-operative institutions. We have found in some places a belief held that the movement was guaranteed by Government, a belief which, if not actually fostered by the local supporters of the movement, was not actively contradicted by them. In other cases Joint Stock Banks, and even Central Banks, lending to societies on the recommendation of the Registrar, have considered that Government was thereby placed in a fiduciary position as regards such loans. We have on the other hand found cases where banks in advertising for deposits have expressly stated that, though they had the benefit of Government audit, they enjoyed no Government guarantee. We think that Government should impress on all its officers the necessity of allowing no misapprehension to exist as regards its relations with the co-operative movement and its degree of responsibility for co-operative institutions.

REPORT

OF THE

COMMITTEE ON CO-OPERATION IN INDIA

CHAPTER I

THE CO-OPERATIVE MOVEMENT IN INDIA

INTRODUCTORY

1. At the time of the appointment of this Committee the co-operative movement had been in existence in India for a little over ten years.

Stagnation of the lower classes in India.—As the aims of the movement have not been always clearly apprehended, we consider it desirable to explain at the outset that the chief object of co-operation in India was to deal with the stagnation of the poorer classes, and more especially of the agriculturists who constitute the bulk of the population. It was found in many parts of India, as in most European countries, that in spite of the rapid growth of commerce and improvements in communications, the economic condition of the peasants had not been progressing as it should have done, that indebtedness instead of decreasing had tended to increase, that usury was still rampant, that agricultural methods had not improved, and that the old unsatisfactory features of a backward rural economy seemed destined persistently to remain. The more obvious features of the situation presented themselves in the form of usury and land-grabbing on the part of the money-lending classes, while the agricultural classes either hoarded their savings or owing to thriftlessness and indebtedness showed themselves unable to withstand bad season and to meet organised trade on equal terms. The depression of the rural classes was further characterised by an underlying absence of any desire for education or advancement and a certain resigned acceptance of oppression from those who by wealth or social position occupied a superior position, an attitude which though often spoken of as 'conservative,' has frequently little of intentional conservatism about it, but is due rather to ignorance, to a traditional subservience in the past, and to an absence of ideals for the future. The peculiar feature of co-operation as a remedy for stagnation is that it is intended to meet not only the more obvious material evils but also the underlying moral deterioration to which the poorer classes have so long been exposed.

2. *Co-operation as a remedy—the moral element.*—The stagnation of the agricultural classes in the greater part of the country has for many years attracted the attention of Government and various remedies have been tried for improving their

material condition. A system of State loans was introduced, Post Office Saving Banks were opened, the civil law relating to debt was frequently and extensively amended, special legislation was initiated at various times in different areas for dealing with tenant right, the alienation of land, the general settlement of debt, and the curbing of usury. But although much has been done by some at any rate of these measures to help the peasant community, the general effect of the action taken can only be described as partial and incomplete. The further efforts which have been made by sanitation and education to improve the environment and the intellectual condition of the poorer classes have not been more successful. Without therefore abandoning the class of remedial measures previously attempted, the Government turned to Co-operation as the most hopeful method of dealing with the problem before it. The theory of Co-operation is very briefly that an isolated and powerless individual can by association with others and by moral development and mutual support obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self-reliance is fostered, and it is from the interaction of these influences that it is hoped to attain the effective realization of the higher and more prosperous standard of life which has been characterised as 'better business, better farming and better living.' We have found that there is a tendency not only among the outside public but also among supporters of the movement to belittle its moral aspect and to regard this as superfluous idealism. Co-operation in actual practice must often fall far short of the standards aimed at, and details inconsistent with co-operative ideals have often to be accepted in the hope that they may lead to better things. We have in our report been compelled to deal mainly with the co-operative organisation from a business standpoint. But we wish clearly to express our opinion that it is to true co-operation alone, that is to a co-operation which recognises the moral aspect of the question, that Government must look for the amelioration of the masses, and not to a pseudo-co-operative edifice, however imposing, which is built in ignorance of co-operative principles. To this point we shall return when we deal with the constitution of co-operative societies, but in the meantime we desire to point out that the combination of the material with the more or less intangible moral element constitutes an important difference between co-operation and the other remedies adopted by Government for dealing with agricultural stagnation.

3. *Report of Sir Frederick Nicholson.*—It was to European experience that the Government in India looked for guidance when it turned its attention to co-operative methods. The Madras Government was the first to grasp the possibilities of a co-operative movement in India, and in 1892 the Government of Lord Wenlock, placed Mr. (now Sir Frederick) Nicholson on special duty to study the theory and practice of agricultural and other Land Banks in Europe and to suggest means by which a similar movement might be popularised in India. The Madras Presidency afforded a hopeful field for experiment because a number of indigenous societies known as Nidhis, analogous to the Friendly and Building Societies of Great Britain, were already in existence there and had attained some measure of success. In 1895 and 1897 Mr. Nicholson issued an exhaustive report on the systems prevalent in Europe which, though now to some extent out of date, still constitutes an invaluable source of information regarding European practices. From this report and from other standard

works on co-operation* a fairly complete idea can be gained of the co-operative movements as developed in Europe and more especially of the lines on which co-operative credit was organised by the German reformer Raiffeisen. It was in 1849 that Raiffeisen, originated the form of rural co-operation now known by his name, but for many years he had little or no progress to record. Ultimately however his earnestness and enthusiasm prevailed against the apathy and misrepresentation with which he was confronted, and the number of Raiffeisen societies in Germany alone had risen by 1912 to over 16,000. It was the aim of this reformer to collect together small bodies of men who lived in close proximity to each other and were fully cognizant of each other's circumstances and character, and to enable these persons by their combination to obtain credit by pledging their unlimited liability. The application of the credit was to be strictly supervised by an elected committee in each society and the administration of the society was to be entirely gratuitous. Other systems differing in detail and to some extent in principle from that of Raiffeisen had been developed in Europe by Schulze-delitzsch, Luzzatti, Wollenborg and others but it was not in Sir Frederick Nicholson's opinion a system, so much as a man, that required to be discovered, and his advice was summed up in the words—' Find Raiffeisen.'

4. *Co-operative Credit Societies Act of* 1904.—While Sir Frederick's enquiries were in progress, Mr. Dupernex of the Indian Civil Service had been placed by Sir A. P. (now Lord) MacDonnell on special duty in the United Provinces for the purpose of discovering by local enquiries how best to establish agricultural banks in selected localities. His conclusions were set forth in an interesting and suggestive book entitled " People's Bank for Northern India " (1900). The ideas first brought to public notice in this work and in Sir Frederick Nicholson's report soon began to bear fruit, and in parts of the Punjab, the United Provinces, and Bengal, some district officers on their own initiative established a few pioneer societies. But it was at once apparent that no real advance could take place without special legislation. The Companies Act of 1882, with its 256 sections and elaborate provisions, was wholly unsuited to societies of the kind, which it was desired to encourage, and Lord Curzon's Government was not long in satisfying itself that special legislation was needed. A strong Committee was appointed under Sir Edward Law to make proposals after considering the opinions of the Local Governments and the experiences of officers who had already started societies. The conclusion at which they arrived was that co-operative societies were worthy of every encouragement and of a prolonged trial. They drew up model schemes of management for both rural and urban societies and discussed the form of legislation needed to secure to societies the privileges which they recommended for them and to provide for their due working and supervision. Their recommendations proved the basis of the Bill which was passed into law in 1904 as the Co-operative Credit

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* We have during our enquiries received special benefit from the perusal of the Bulletins of the Agricultural Institute at Rome, Mr. Cahill's Report on Agricultural Credit and Agricultural Co-operation in Germany (1913), the Report of the Department Committee on Agricultural Credit in Ireland (1914), the Report of the American Commission conjointly with the United States Commission on Agricultural Co-operation and Rural Credit in Europe (1914), and Mr. Wolff's " People's Banks," and " Co-operative Banking." A list of the chief books and reports on co-operation published in India will be found among our appendices below.

Co-operation in India owes a great debt to Mr. Wolff for the advice which he has always freely placed at the disposal of the Government and its officers, and we desire to acknowledge the special assistance which we have obtained from him in response to enquiries made by us in connection with our Report.

Societies Act. Along with the Act the Government of India issued an explanatory memorandum drawn up by Sir Denzil Ibbetson which for its clear grip of first principles and directness of statement still well repays perusal. It was explained that the cardinal object of the Act was, by the simplicity and elasticity of its provisions, to permit a genuine Indian movement to spring up based on those general broad principles which must necessarily underlie any organization claiming to be called co-operative. Experiments were to be freely allowed and more particularly for the furtherance of agricultural rather than industrial credit. Societies were classified as rural and urban, and while the latter were left a free choice, the former were bound to accept unlimited liability. In ordinary cases the area of societies was to be closely restricted. They were given a legal personality and authorised to raise funds and carry on their business in a corporate capacity. Loans might be made to members only on personal or real security, but not ordinarily on chattel security. An annual official audit was made compulsory. The interest of any member in the share capital of the society was strictly limited and special exemptions from the provisions of the Stamp Act, the Registration Act, and the Income Tax Act were conceded. The subject of Central Banks and the higher stories of the co-operative structure were not however dealt with at this stage, and no indication was given as to the means of providing resources for enabling societies to meet their liabilities to depositors.

5. *The Co-operative Societies Act of* 1912.—The Local Governments at once set to work to give practical force to the intentions of the Act. The first step was to appoint Registrars in the various provinces to spread the co-operative propaganda, to start a few model societies and to train the rural population in the proper methods of management. Local conditions varied so widely that progress was by no means uniform and in different regions very different types of societies began to make their appearance. But in no province did the new doctrine fail to strike root, and, as will be noticed from the figures quoted below, the progress made in the first few years of the movement was remarkable. It will be evident from these figures that the movement did not take long to outgrow the dreams of its founders and in two directions the need for improved legislation was especially felt. In the first place the example of the credit societies established under the Act of 1904 had led to the introduction of co-operative societies for distribution and for purposes other than credit, for which no legislative protection could be secured under the then existing law. And in the second place the need for a freer supply of capital and for an improved system of supervision had led to the formation of various central agencies (afterwards known as Unions, Central Banks, and Central Banking Unions) to finance and control the original credit societies, and these central agencies, like the non-credit societies above mentioned, ran all the risks attendant on a status unprotected by legislation. These and other developments had so far outrun the anticipations of the framers of Act X of 1904 that Registrars found difficulty in dealing under its provisions with the state of affairs which began to present itself. The Government of India re-examined the whole question and decided that the position could be best met by entirely fresh legislation. In 1912 they passed into law the Co-operative Societies Act (II of 1912) which regularised many practices which had previously been of doubtful validity and made provision for further expansion under proper safeguards. In publishing the Act, the Government of India also issued a circular letter explaining clearly the new features which characterised

it. Co-operative Associations for other purposes besides credit were allowed. The old distinction between rural and urban societies was swept away, and a more scientific distinction based on the nature of the liability of members, whether limited or unlimited, was adopted in its place. The registration of Unions, Central Banking Unions and Central Banks was for the first time expressly legalised. A number of minor improvements with regard to registration, audit, and similar administrative details were at the same time introduced; but the Act remained silent on the subject of the provision of liquid resources to meet liabilities.

Year	No. of societies	No. of members	Amount of working capital*
			Rs.
†1906-07	843	90,844	23,71,683
1907-08	1,357	149,160	44,14,086
1908-09	1,963	180,338	82,32,225
1909-10	3,428	224,397	1,24,68,312
1910-11	5,321	305,058	2,03,05,500
1911-12	8,177	403,318	3,35,74,162

* Capital lent by one society to another has been included twice in these figures.
† The figures for Native States have been excluded.

6. *Resolution of* 1914 *and appointment of Committee.*—The immediate effect of the Act was to infuse a fresh energy into the movement. The number of societies in British India had by 1914 increased to 14,881, the number of members to 6,95,998 and the working capital (calculated as mentioned in the statement above) to Rs. 7,45,31,725. New types of societies for the sale of produce, cattle insurance, milk supply, yarn, silk and manure purchase, and the retail of farm implements and common necessaries, had been registered and in most cases seemed to be prospering. The number of Central Institutions was growing rapidly and the confidence of the public was being won in greater measure every year. In 1914 the Government held that the time had come to take stock of the position and on the 17th of June of that year issued a comprehensive Resolution reviewing the progress that had been made and laying down in general terms the practical lessons that might be drawn from experience up to date. But the sums involved in the movement were becoming very large, the arrangements for financial management in the stages above that of the individual society were becoming complicated, and the principles for the conduct of inspection and audit remained indefinite and uncertain. It was felt by Government that it could not take the responsibility of fostering and supporting further growth unless it was satisfied that the movement was proceeding on lines economically and financially sound. It was to enquire into and report on this aspect of the question that this Committee was appointed by a Resolution of 8th October 1914 and the reference made to it was expressed in the following words:

"The primary duty of the Committee will be to examine whether the movement, especially in its higher stages and in its financial aspect, is progressing on sound lines, and to suggest any measures of improvement which seem to be required. For this purpose the enquiry will be directed primarily to an examination of such matters as the constitution and working of Central and Provincial Banks, the financial connection between the various parts of the co-operative organisation, the audit, inspection and management of all classes of societies, the utilization of the reserve and the manner in which reserve funds should be exhibited in the annual accounts. At the same time the Government of India do not desire rigidly to limit the scope of the enquiry and the Committee may, at its discretion, consider and make recommendations regarding any important aspect of the co-operative movement."

7. *The scope of this Report.*—Our Committee met on the 6th November 1914 and travelled for four months visiting various centres in the larger provinces of India, and examining during this period 93 witnesses and inspecting some 135 societies of various kinds, besides interviewing the Managers and Agents of several Joint Stock banks. We have in our report been unable to confine our enquiries to the subject primarily referred to us, since we have been forced to recognise that the financial welfare of the higher stages in the co-operative system is largely based on the soundness of the foundation, and we have therefore freely used the discretion given to us to extend the scope of our investigations. We must at the same time make it clear that our report is not intended to be in any sense a cyclopædia of information on co-operation in this country. We have not had the leisure or the means to attempt anything of the kind, and we have indeed done what we could to reduce to the smallest proportions consistent with our duty the references made to officials and others for statistical and other information. The figures we have quoted in this Report are for the most part those already available to the public in the returns issued by the Government, and little or no purpose would have been secured by adding largely to these or by bringing them up to any particular date.* Our statements and our recommendations must further be taken as referring to British territory only, and, except for a short but interesting and instructive visit paid by some of us to the Mysore State on the invitation of the Durbar, we did not include the Native States in our tour of enquiry. Nor have we thought it necessary to deal with legal questions or points of difficulty in the interpretation of the law or possible amendments of the Act except so far as these have emerged in connection with points substantially before us. Our object in the preparation of this report has been firstly to submit, with such explanations as may be necessary, the recommendations asked for in the Government reference; secondly to supply facts and opinions regarding outstanding points which may be of use to the officials and others who supervise or partake in the co-operative movement in India; and thirdly to place before the outside public information of the class likely to be useful to those who wish to ascertain the general position of co-operative societies as financial institutions. We recognise that it is not always feasible to combine the two latter of these objects with the first named, but in order to meet as far as possible the aims which we have set before us we have dealt separately in successive chapters of our report with Primary Societies, Central Institutions and Provincial Banks, and we have concluded with a chapter in which we discuss certain important questions regarding the relations of Government to the movement.

Why mainly confined to agricultural credit.—In order further to simplify the examination of our report, we have in Chapters II to IV dealt with agricultural credit only, and our remarks in those chapters will not affect, except in a secondary manner, the questions relating to forms of co-operation other than agricultural credit. In thus

* The date on which the Annual Returns are made up varies in the different provinces. The exact dates are as appended :—

March 31st, Bombay. Assam.
May 31st, Bihar and Orissa.
June 30th, United Provinces. Central Provinces. Madras. Bengal. Burma. Coorg. Ajmer.
July 31st, Punjab.

confining the main portion of our report to the consideration of agricultural credit, we do not in the least desire to belittle the importance which must necessarily be attached to other branches of co-operation, both at the present time and still more in the near future. We believe that great developments may be expected in industrial co-operation and in the application of co-operative principles to many branches of agricultural organisation, and that it is not impossible that these developments may in time surpass even the rural credit institutions, in importance. But these other forms of co-operation are as yet for the most part in their early infancy and, as will be seen from the figures given below, they occupy a comparatively small portion of the ground at present covered by co-operative effort in this country. The main principles moreover which govern the administration of agricultural credit are as a general rule of equal application to other forms of co-operation, and much of what we write in respect of agricultural credit will be equally applicable to the organisation of non-agricultural and non-credit societies. Before however proceeding to deal in detail with the former class of credit we would record briefly at this stage in our report such special observations as we have to make regarding co-operative institutions of the latter character.

No. of primary societies	Non-agricultural	Agricultural	Total
Non-credit	82	167	249
Credit	602	13,715	14,317

Non-Credit Societies

8. *Claims as compared with credit societies.*—The forms of co-operative activity that have proved most popular and successful in England are those connected with purchase, production, and distribution. But in most continental countries these branches of work were not undertaken until credit societies had been firmly established, and development in India has followed the continental precedent. The first Act (X of 1904) provided for the formation of credit societies only and postponed to them all forms of non-credit co-operation. This policy was deliberately adopted, not because the vital importance of other kinds of co-operation was not fully realized, but because it was held that among a relatively backward population the difficulties involved in the management of productive and distributive business were likely to prove a stumbling-block in the way of progress. Credit societies with their simple organisation and methods of management afforded the easiest field in which the principles of co-operation could be learnt and practised, and were therefore first pressed forward. With the numerical increase in societies a knowledge of the main principles underlying co-operative work has gradually spread among the people, and in areas where these have been best understood, a desire has arisen for applying them to other branches of business besides the borrowing and lending of money. We wish to make it clear that in our opinion this development is not only inevitable but essential to the balanced development of the economic condition of the country as a whole, and that the demand for non-credit forms of co-operation is in itself a healthy sign. We would insist however on two conditions which appear to us vital to success. Firstly it is essential that the demand for such societies should arise not merely from external suggestion or

the hope of effecting some small economy, but from the existence of a real need and from a real comprehension on the part of their originators of all that is implied in the term 'co-operation'; and secondly it is scarcely less important that a strong and competent staff should be available for the supervision of such societies and for dealing with the complicated economic problems involved. Where these conditions are satisfied, we welcome the formation of societies for other purposes than credit.

9. *Classification and figures.*—Those non-credit societies which are already in existence are included in the annual official statistics and at the suggestion of the International Institute of Agriculture at Rome are classified by the Government of India under five heads—(*a*) Purchase or Purchase and Sale, (*b*) Production, (*c*) Production and Sale, (*d*) Insurance, and (*e*) Others. The figures at the end of the year 1913-14 after some necessary rectification were as follows:—

	Madras	Bombay	Bengal	Bihar and Orissa	United Provinces	Punjab	Burma	Central Provinces	Assam	Coorg	Ajmer	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
Non-Agricultural												
Purchase or Purchase and Sale	10	27	..	2	5	19	..	..	..	..	..	63
Production ..	1	..	..	..	..	..	..	..	..	..	..	1
Production and Sale	..	1	1	..	1	4	..	1	..	..	..	8
Insurance ..	..	..	..	..	..	..	..	..	..	..	..	..
Others	5	2	3	..	..	..	..	..	..	..	..	10
Total	16	30	4	2	6	23	..	1	..	..	..	82
Agricultural												
Purchase or Purchase and Sale.	..	11	..	..	..	..	..	..	..	..	..	11
Production ..	..	..	..	..	..	..	..	3	..	..	..	3
Production and Sale	..	4	..	..	10	..	63	1	..	..	..	78
Insurance ..	..	..	..	..	1	..	59	..	..	9	..	69
Others	6	..	..	..	..	..	..	..	..	..	..	6
Total	6	15	..	..	11	..	122	4	..	9	..	167
Grand Total	22	45	4	2	17	23	122	5	..	9	..	249

It may be noted that in some cases societies do both non-credit and credit business, and such societies are classified according to their chief function. While therefore several of the above societies must be regarded as supplementing their non-credit work with credit, it must be remembered that there is a much larger number of societies included in the returns of credit societies which have undertaken subsidiary non-credit activities of various sorts.

10. *Non-agricultural Non-credit societies.*—Dealing first with non-agricultural societies, we find that successful attempts have been made to arrange for the purchase of yarn and silk for weavers, cane for basket workers, timber for carpenters, and imple-

ments (sometimes of improved pattern) for several industries. The production and sale of cotton and silk cloth, durries, and furniture have been undertaken. Building societies have been organised. The purchase and sale of most sorts of common necessaries is being carried on at various co-operative stores. Of these non-agricultural societies the most prominent and the most promising are those formed for the benefit of weavers. Their object is to purchase wholesale raw material, yarn, and silk, to help weavers to buy improved looms and other implements, and to organise the direct sale of manufactured cloth to consumers. This type of society is in our opinion worthy of support, both because weavers are a numerous and poor class, whose earnings have in recent years been seriously diminished by the competition of the mills, and also because any method by which the cottage industries of the country can be preserved would deserve a prolonged trial. We would only point out that attempts to reorganise village industries on a more profitable basis should not be undertaken sporadically or fortuitously. To avoid mistakes, which may well plunge small craftsmen into still deeper difficulties than now, it is very necessary that a systematic enquiry should be made by Government or some other agency into the economic conditions of any industry that may be taken up, and the organiser should have grasped the details and difficulties of the business and have a practicable scheme to propose before asking the people to accept it.

In connection with urban societies we would draw attention to the fact that certain types, such as building societies and stores, more especially when they are composed of members whose means raise them above the poorer classes, though not in themselves necessarily unco-operative, exhibit a tendency to ignore the moral bases of co-operation. It appears to us that in some cases registration has been sought under the Co-operative Societies Act rather than under the Companies Act in order to take advantage of the concessions obtainable under the former Act and to avoid the detailed restrictions of the latter. When a society is formed to carry on a business which is also capable of being carried on as an ordinary trading concern, we think that the Registrar should scrutinize the application most carefully, remembering that the intention of the Co-operative Societies Act as defined in its preamble is to promote "thrift and self-help among agriculturalists, artisans and persons of limited means," and that he should grant registration only if the proposed society fulfils this intention.

11. *Agricultural non-credit societies—Sale of produce.*—Among agricultural societies for purposes other than credit, the outstanding types are those for the sale of produce, and for cattle insurance. The former are at present chiefly found in Burma and combine with credit business the sale of paddy and ground nuts on behalf of their members direct to wholesale dealers at Rangoon. An objection has been raised before us by persons interested in the export trade, that such societies are likely to raise prices as against the merchant and the consumer, but we have found no evidence in support of this view. On the contrary by the elimination of unnecessary middle-men the profits, which previously went to them, become available for division between the agriculturist, the merchant, and the ultimate consumer. The removal of such agents as are merely parasitic means more rapid business, a quicker turnover, and a better understanding between the wholesale purchaser and the producer of the crop. These features are noticed because they would probably characterize any societies that may be similarly organised hereafter to deal with the wheat or jute trades in India.

12. *Insurance of cattle.*—With regard to cattle insurance only two schemes have hitherto been tried one in Coorg and one in Burma. Under the Coorg scheme the owner pays two-thirds of the value of the animal insured into the society within 4 years by instalments of decreasing amounts. Should the animal die before the payments are complete, the whole amount insured is paid to the owner. If it survives the period, the full amount of the premia paid, but without interest, becomes payable on death or invalidity. Under the Burma system only plough cattle and buffaloes between the ages of 4 and 12 are accepted for insurance. The amount of the indemnity is two-thirds of the value of the animal as estimated by the local committee, and this estimate is revised half-yearly. A premium is charged at the rate of 5 per cent. on the value of the animal. The premia are regarded not as a cumulative investment but as a payment for protection, which extends only for the period covered by the current premium. As the premia charged under the Coorg system are probably too high to be acceptable to agriculturalists except in districts where cattle are very cheap, the Burma system on this account will probably be found preferable. But if it is introduced in other parts of India, local modifications of the scheme will no doubt be necessary. It is true that actuarial data of the mortality of cattle in different districts are not yet available, and that the premia charged will be at first empirical. But there seems no prospect of obtaining reliable figures except from the experience of the insurance societies themselves, and while we advocate due caution we see no object in waiting for the final results of the Burma experiments if opportunities present themselves for starting any well-supervised schemes elsewhere; nor do we think it necessary, as suggested by the Imperial Conference of Registrars in 1912, to defer the introduction of cattle insurance until adequate means exist for applying prophylactic measures.

Two features in the Burma system seem to us to call for special notice and deserve imitation if a similar scheme is taken up in other provinces. Firstly we find that, although there is a rule (framed in order to secure a respectable clientele and to facilitate supervision) that the members of insurance societies should antecedently be members of credit societies, yet the finances of the two institutions are kept quite distinct. Neither primary nor central credit societies are allowed to undertake any risk or liability on behalf of insurance societies, and this provision seems to us sound. Secondly we find that the central reinsurance society has received a guarantee of financial support from Government in case of necessity. This action is justified at the present stage on the ground that it is hopeless to expect such a society to get sufficient share capital subscribed by the members; at the same time it must have some financial backing, because the principle of insurance is to spread risks over a considerable area and period, and there is always a chance of exceptional mortality occurring during the first few years. The only alternative is Government support, and in this case such support appears to us unobjectionable in principle. Government already spends considerable sums of money on the maintenance of a Civil Veterinary Department for the preservation of the lives of cattle and gives agricultural loans to replace cattle that have died. It would further this policy to give financial aid to societies which not only obviate to a large extent the necessity of Government agricultural loans, but which lead to greater care being taken of the animals and create an interest in preservative measures which will be of great use to the Civil Veterinary Department in extending its propaganda. If the premia are fixed on a reasonable basis, we think there will

be little or no risk to Government in giving a guarantee, and we recommend that local Governments should consider the advisability of financial support or guarantee when reinsurance societies are projected. A guarantee of this kind should be sufficient to give the system a fair trial assuming that a state of normality would be reached in, say ten years, and at the same time the area within which the reinsurance society is to work should be restricted, and the maximum liability involved by the guarantee defined.

Societies for the insurance of agricultural crops against damage by hail have not yet, so far as we are aware, been started in any part of India. Such societies would however be useful and, in view of the information existing in many provinces in connection with the remission of land revenue on account of damage done by hail, they would in some respects be equipped with better actuarial data than societies for cattle insurance. The system to be followed in constituting hail insurance societies would approximate very closely to that suggested by us in connection with the insurance of cattle.

13. *Combination with credit societies.*—Most forms of agricultural non-credit societies, and especially those for the supply of seed and implements, can in our opinion best be combined with credit societies. In fact not a few societies, returned as credit societies, have such annexes, maintaining separate accounts, but with the same membership. Much has been done, notably in the Central Provinces, in growing and distributing improved seed through organisations of this sort. Whether the work should be centralized and left to a Central Bank, or localized and dealt with by a primary society, will depend in every case on the sort of function undertaken. Ordinarily we do not think that a society should itself become the owner of the commodities handled. It is preferable that it should buy or sell on commission, or on some system under which it merely undertakes joint sale and purchase on behalf of the members at their risk.

It is, we think, in the use of credit societies for distributing improved seed and implements, and in the general supervision and development of non-credit societies, that the help of the Agricultural Department can most usefully be afforded and it should be given—as it is already given in many provinces—fully and ungrudgingly. Provided that it uses the societies not for experimenting in new processes but strictly for popularising proved improvements, we think that nothing but good can be expected from the assistance of the Agricultural Department. But while at some future time the Agricultural Department may be not less interested than the Co-operative in the management of agricultural non-credit societies, the control must necessarily remain at present and for some time to come in the hands of the Registrar of Co-operative Societies.

14. *Dealings with non-members.*—On the question whether non-credit societies should be allowed to deal with non-members, we do not think it possible to lay down any general rule. As far as practicable, such dealings should be avoided and it will generally be well to shun competition with such local outside agencies as are efficient. However we would not press this rule in cases where the operations of a society, if confined to its own members, would be so restricted that it could not be managed with any prospect of profit or economy.

Non-Agricultural Credit Societies

15. *Claims as compared with agricultural co-operative credit.*—In introducing the co-operative credit movement into India the Government of India ordered that the

establishment of societies among the agricultural classes should be the first care of local Governments, giving as their reason that "the agricultural problem is more serious and far more difficult to deal with than the industrial problem, and it is necessary that effort should be concentrated". These orders have been carried out with the result that we find in British India 13,882 agricultural societies now in existence, as against 684 non-agricultural societies. The development is not perhaps so one sided as might seem at first sight, since if it be assumed that persons living in towns of a population exceeding 5,000 form the urban classes of India, there is at present one society per 38,000 of the non-agricultural population as compared with one society per 15,000 of the remaining population. But the fact remains that it is to progress among agriculturalists that attention has chiefly been directed. It appears to us that the policy laid down by the Government of India, though wise in the initial stages and fully justified by results, might now with advantage be relaxed, and the development of non-agricultural societies encouraged to proceed *pari passu* with that of agricultural societies. The interest on loans paid by the industrial classes in towns is not lower than that charged to agriculturists. With rising prices, insufficient and insanitary house accommodation, wages often held in arrears, and a desire for a higher standard of living consequent on the spread of education, industrial difficulties are bound to increase, and we are of opinion that any form of organization, such as co-operative societies, that has a tendency to alleviate these difficulties is worthy of support. We would also point out that the excessive development of agricultural societies to the exclusion of other classes means that the demand for money and the repayments of loans are not distributed evenly throughout the year, but occur at particular seasons, with the result that Central Banks during certain months of the year find it difficult to employ their capital profitably. There are also advantages in bringing the urban classes, and especially the lower industrial classes who at present see little of Government Officers except in their judicial or punitive aspects, into close contact with a branch of Government which they cannot but regard as beneficent. For these reasons we would advocate the extension of co-operation among the non-agricultural classes provided always that it is carefully supervised and controlled.

16. Non-agricultural credit societies as may be seen from the figures below, have already made their appearance in all the larger provinces. The total of these is 602 of which more than half are of unlimited liability. On the question of the form of liability to be adopted in such societies we think that as a general principle when the clientele is fairly well-to-do, and when owing to local conditions full mutual knowledge cannot so easily be secured among the members, and when the share capital is adequate to the business undertaken, liability should be limited, but otherwise it should be unlimited. We would also remark that in dealing with such societies, central banks would be justified in exercising more caution than is required in dealing with non-agricultural societies because the co-operative safeguards are not generally so well developed. The members are often scattered or nomadic, with the result that mutual supervision tends to be less strict and difficulties occur in realizing loans. The circumstances of many societies compel them to follow purely business methods and to overlook to some extent the moral sanction that should govern their work. The accounts are often too complicated for the ordinary member to understand. On the other hand in some points

many of these societies are superior to the average rural society. More of their members are literate. The management and accounts are more careful and accurate. The accumulation of savings deposits is feasible. Short-term loans and repayments by regular monthly instalments are easily arranged. Of course in different parts of India very many varieties of type among these societies have come into existence. For the purposes of our enquiry we need notice only three of the most important namely (*a*) the middle class urban banks, (*b*) employees' societies and (*c*) societies for poor castes.

Special characteristics

Madras	50
Bombay	95
Bengal	76
Bihar and Orissa	39
United Provinces	179
Punjab	11
Burma	49
Central Provinces	87
Assam	16
Total ..	**602**

17. *Middle class Urban Banks.*—Urban societies, composed mainly of members of the middle classes, are frequently defective in that they are not really co-operative. Shares are often taken up merely for the sake of dividends and money is not infrequently borrowed for speculative enterprises. Their value consists not so much in their services to co-operation as in the training ground they afford to their members for understanding ordinary joint stock banking. Recent experiences in Northern India have shown the dangers of a policy under which Government allowed banking institutions to spring up and carry on business under a control so light as to be almost nominal, but we think that urban credit societies might serve a useful purpose in training the upper and middle urban classes to understand ordinary banking principles. Such societies would perhaps be scarcely justified on their own merits in claiming registration under the Co-operative Societies Act, but we think that on the whole, where joint stock banking facilities are absent, they may fulfil a useful purpose, and we see advantages in encouraging their formation. In any case we would expect them to be as a rule self-supporting, and we think that any help which might be afforded to them by Central Banks should be closely restricted.

18. *Employees' societies.*—The object of the employees' societies should in our opinion be rather to encourage saving and thrift than to make loans on easy terms, and in the best examples we have seen we are satisfied that this object has been attained. The same object is doubtless to some extent met by the departmental Provident Funds, but those funds fail to provide the moral training of a co-operative society and afford fewer facilities for the prompt supply of ordinary loans. The difficulties which beset co-operative societies for employees are firstly the transfer of members from place to place in a big business or department, and secondly the fact that even on the Committee the members

are unable to meet on an equality. It is impossible for them, since they all belong to one service, to forget in conducting the business of the society their relative official positions outside it, and in this way influential or highly placed members are able to secure excessive loans for themselves or their friends, and by recusancy in the matter of repayment may seriously embarrass a committee composed largely of their subordinates. It makes for better management if the head of the office, whether a member or not, can watch over the society, and if arrangements can be made by a provision in the bye laws for the recovery of loans by deduction from monthly salaries. We suggest that it would often be possible for such societies to encourage thrift, to provide themselves with an improved security, and to simplify their accounts, if they required all members as a condition of membership to insure themselves in the Post Office Insurance Fund. As in the case of other classes of non-agricultural societies, we would repeat that employees' societies should not be started unless really satisfactory arrangements can be made for their regular management and control.

19. *Societies for poor castes.*—By far the most valuable and hopeful form of urban credit societies is in our opinion that which confines its operations to poor castes, *e.g.*, butchers, weavers, mill-hands, scavengers, etc. In their early stages these societies need constant help and guidance, which can best be supplied by some philanthropic individual or social agency. The work well repays its originator, for as a rule these classes show themselves very amenable to co-operative ideas and anxious to learn. To their credit it must also be said that they are generally most punctual and honest repayers. Since the members owing to their depressed condition and lack of education cannot hope to manage their own business without long training, especially in the matter of account-keeping, we think that the support of the clerical staff of these societies is an object for which grants might suitably be given by Local Governments on very much the same grounds as justify grants to other philanthropic institutions.

AGRICULTURAL CREDIT SOCIETIES

20. *Banks for large proprietors.*—The agricultural credit societies now established in India are for the most part composed of peasant owners or tenants, and no steps have yet been taken to extend co-operation for the benefit of the class of large proprietors who own the bulk of the land in several provinces and whose estates are often much encumbered. The case of these proprietors has been represented to us, and more than one Registrar has seriously considered the possibility of introducing some form of co-operation among them corresponding to the Land Mortgage Credit Associations or Mortgage Banks which are found on the Continent of Europe. We have not ourselves examined the details of such schemes and their merits must necessarily depend largely on the peculiar circumstances of each province. Money can already be borrowed on some large estates at fairly easy terms and this fact, together with the necessity for long term capital and a want of solidarity among the constituent members, would be a difficulty of some importance in the way of general schemes, but we feel that the establishment of well-conceived and well-administered mortgage associations or banks at the instance of the landed gentry of the country with the help of Government would be a measure of great value not only to the proprietors themselves but also to the Government, and this fact should in our opinion be borne in mind if applications are at any time made for special concessions in respect of such banks.

21. *Existing societies mainly for peasants—Nomenclature.*—In the absence for the time being of this more ambitious class of effort it will be understood that our report will deal in the main with the grade of society which is intended to meet the needs of small landholders, tenants, and men of a similar social status in the country districts. These agricultural societies vary both in character and in name in the various provinces, and in order to render our observations intelligible we have found it necessary to arrive at a uniform nomenclature. Under the Co-operative Societies Act all classes of registered societies, whether in themselves primary units or federations of constituent societies, are spoken of as 'societies.' In actual practice however the primary units are in some provinces known as 'banks', but in most as 'societies.' We shall in this report speak of them as 'primary societies' or 'societies' and we think it would be well if this terminology could in future be adhered to by local Governments in their official communications. The societies are classified in the returns as 'agricultural' if the majority of members are agriculturists, or if the main object is agricultural.

The nomenclature for the central societies, under which the primary societies were federated, was discussed at the Co-operative Conference of January 1911. It was then recommended that they should be classified under three heads, *viz.*, 'Central Banks,' 'Unions' and 'Central Banking Unions' and these terms are still prescribed for use in the Government of India returns; but there has always been some confusion as to whether the distinction between a Central Bank and a Union should depend on the presence and absence of banking functions or the absence and presence of individual shareholders, and different provinces have followed different lines. Apart from the annual returns, we find that in some provinces 'Unions' connote supervisory functions only, in others they include banking societies, and in one province they refer to associations which are outside the Act altogether. In some provinces the term 'central bank' is applied to all forms of central banking societies; in others a central bank is termed a 'district bank' if it is situated at the district headquarters; and in others the terms 'Urban' or 'Town Bank' (a relic of the early stage of co-operation in which Town Banks were introduced to finance the rural societies) is still applied to certain central institutions. Since moreover the present classification was prescribed a further type of society known as a 'Provincial Bank' has been started in the Central Provinces and Bihar, and the Central Banks at Bombay and Mandalay, as well as the Central Urban Bank at Madras, fulfil some functions closely allied to those of a Provincial Bank. We consider that we shall be following the general convenience if in the report we treat the five central institutions at Bombay, Madras, Jubbulpore, Bankipur and Mandalay as "Provincial Banks" and speak of all the other federal institutions which do banking business as 'Central Banks.'

We propose therefore to class societies for present purposes as (*a*) Primary societies, (*b*) Central Banks and (*c*) Provincial Banks, and we shall deal separately with each of these classes. We shall reserve the term 'Union' for those forms of federation which are maintained for supervision, either combined or not combined with the assessment or guarantee of loans to primary societies and which do not undertake any banking business.

22. *Distribution of societies and banks.*—There are on this basis, according to our last returns, 13,715 primary agricultural societies, 189 central banks and 5 provincial banks in India which are distributed by provinces as follows:—

Provinces 1	Primary Societies 2	Central Banks 3	Provincial Banks 4
Madras	1,250	7	1
Bombay	569	3	1
Bengal	1,547	33	..
Bihar and Orissa	766	12	1
United Provinces	2,549	55	..
Punjab	3,261	38	..
Burma	1,092	2	1
Central Provinces	2,083	28	1
Assam	224	6	..
Coorg	22	..	..
Ajmer	352	5	..
	13,715	**189**	**5**

In the annual returns the number of agricultural credit societies is indicated separately from that of other forms of agricultural co-operation, but the further statistics showing the number of members, working capital, and so forth, do not make this distinction, and in such figures as we may quote hereafter in this report, it has been impossible to exclude the data for agricultural non-credit societies. As the number of these societies is at present very small, the inconvenience so caused is negligible.

CHAPTER II

PRIMARY SOCIETIES

23. *Importance of stability of primary societies.*—From the terms of the reference made to this Committee (see paragraph 6 above) it will be observed that its investigations were intended to refer in the main to the financial position of the provincial and central banks, and we have borne this in mind throughout our enquiries. But the financial stability of the higher class of bank, though dependent on many considerations peculiar to that class, must always in the ultimate resort be dependent on the soundness of the primary societies on which the whole structure rests. We have therefore no hesitation in dealing at some length with the considerations on which the soundness of the primary societies is based. The outside investor or depositor who deals with provincial or central banks has seldom the time or opportunity to look closely into the manner in which the business of the constituent primary societies is conducted, and it is therefore all the more incumbent on the supervisory authorities, from considerations of honesty as well as prudence, to see that the business of this class of societies is conducted on sound lines both from a co-operative and from a financial standpoint. Persons who know of co-operation only from books are doubtless often disappointed when confronted with concrete cases of societies in actual working, whether in India or in Europe, and are apt thereafter unjustly to disparage the whole movement because the specific instances which came before them fell short of their ideals. But while it is indeed a mistake on the one hand to expect more from these societies than human nature is likely to realise, it is equally a mistake for those responsible to rest content with an inferior standard of co-operation, when a higher standard is attainable. We have accordingly considered it our duty to point out in some detail the chief considerations on which the soundness of primary societies is built up. It is ultimately on three main requirements that their soundness is based. They must in the first place be co-operative. They must also be business-like. And finally they must be thoroughly well supervised. These points may conveniently be discussed under the following three heads:—

(*a*) The constitution and management of primary societies.

(*b*) The composition and employment of their capital, and

(*c*) The arrangements for their inspection and audit.

Constitution and Management

24. *Responsibility of the Registrar.*—A society has very little prospect of success unless it is started on sound lines, and the Registrar is primarily responsible for seeing to this. In some parts of India we have found a tendency on the part of the Registrar to think that he should automatically register all societies, which in their applications for registration satisfy the conditions of the Act and the Rules. But we would draw attention to the provision of the Act which lays down that, after he is satisfied that the legal

preliminaries have been complied with, he "may, if he thinks fit" register a society. We think it essential that he should personally satisfy himself that the society is being formed on a sound basis, and that in every case he should himself see the reports which have been submitted on the proposal for registration.

25. *Area most suitable.*—In considering such applications there are several points to which it is necessary that attention should be directed. The area of operations should for instance be clearly defined and should conform to the spirit underlying section 6 (1) of the Act. By this we mean that the field of the society should be sufficiently restricted to allow members to be mutually acquainted and to be in a position to exercise an effective mutual control. It is a good general rule that there should be one society to one village and one village to one society. But apart from the fact that the term "village" does not mean the same thing in all provinces (in Assam and Coorg for instance it carries a special meaning), there are exceptional circumstances which justify departures from this rule. The circumstances which justify exceptional treatment have been described as follows in the Resolution of 1914:—

> "Where for instance a group of villages can conveniently form a co-operative unit, they may without objection be served by one co-operative society. Where persons scattered over large areas are for any special reason so thoroughly in touch with one another that they are able and willing to be jointly responsible, the condition of propinquity is not absolute, and the law accordingly allows that members of the same tribe, class, caste or occupation, even if not resident in the same village or group of villages, may become members of the same society. Similarly, it is permissible to have more societies than one in a single village in cases where a village is so large that all the residents are not mutually acquainted, or where a village is so divided from any cause that one set of residents could not be expected to be jointly responsible for another. But the essential principle remains that societies should ordinarily consist of members so closely in touch with one another that they are willing to be and can be, both in name and in fact, jointly responsible."

We desire to express our concurrence in the views thus expressed.

26. *Size of Societies.*—We would lay stress on the importance of small beginnings. The members of a society should be few to start with, and increases should be gradual and the ultimate total moderate. The main advantage claimed for large societies is economy of management, but this consideration scarcely affects rural societies. On the other hand small societies are more easily supervised and trained in co-operative principles, just as small classes are more easily taught in schools. If a society is small, it affords a better opening for local talent. It brings more men to the front, trains them to undertake responsibilities, and by carrying on a business not exceeding the capacity of the committee, prevents the domination of one man. Societies should in our opinion, be small at the commencement, not only when the members are poor and backward, but in all cases. When a sound beginning has once been made, gradual increases should be allowed, care being taken that the men of best character are admitted first and that subsequent admission is treated as a favour to be earned by the candidate rather than as a benefit conferred by him on the society. The average size of a rural credit society in Germany is about 94 members. In India the average membership of an agricultural society is 41, the figures for each province being as shown below. We have some hesitation in suggesting

a definite numerical maximum, but as a rule we think that a society is apt to become unmanageable if its numbers exceed a total that might vary from 50 to 100.

Madras	62
Bombay	69
Bengal	46
Bihar and Orissa	48
United Provinces	39
Punjab	47
Burma	24
Central Provinces	16
Assam	51
Coorg	91
Ajmer	29
British India	41

27. *Danger of exclusiveness.*—In some areas we find a tendency, not yet perhaps very marked, to exclude deserving but poor persons from societies on the ground of their caste or status. Societies at present are composed chiefly of small peasant owners and occupancy tenants, and it is the exception to find village artisans and agricultural labourers included. We see no objection to societies being constituted mainly of the existing elements which form a well defined body of men for whom co-operation is especially required. Excessive exclusiveness however is also an evil and care should indeed be taken that deserving persons are not excluded merely on the ground of poverty; but we would not advocate anything like a crusade to force the poorer classes on the present members. Societies should be taught the principles of selection and should be left to themselves as far as possible to settle individual cases.

28. *Mixture of occupations.*—We would not advocate the deliberate mixture of occupations in societies in order to keep the funds in constant circulation. Mixed societies, where tried, have not been a success, and it is found that non-agriculturists in agricultural societies tend in practice to take loans at the same seasons and for the same periods as agriculturists. On the whole more is to be gained by respecting the general limits indicated by the occupation of the members and securing community of interest. While however we would not advocate any attempt to effect a mixture of occupations as between the members of a society, we consider that there is much to be gained if the societies affiliated to one central bank are as far as possible representative of different types of occupation.

29. *Requirements before registration.*—The existence of faulty societies is generally due to hasty registration, and we would repeat that no pains should be spared to make full enquiry into all applications. Full reports should always be required from the agency by which a society is organised and certain specified heads should be laid down on which information should be furnished. We hold it necessary, for instance, that the Registrar should be able to ascertain (1) whether the proposed members have really assimilated the principles of co-operation, (2) whether they appear to be too involved in debt to

make a society successful (and for this purpose a statement showing, though not in great detail, the assets and liabilities of intending members should be submitted), (3) whether adequate working capital is available in the movement, (4) whether the applicants are men of good character, and the village as a whole free from the taint of litigiousness, (5) whether means are at hand to provide for the necessary supervision of the society when formed. Enquiry should also be made as to the suitability of the proposed secretary and committee.

30. *Teaching of co-operating principles.*—We cannot too strongly urge the necessity for careful teaching both before and after registration. Most of the faults which we have found in societies are due to the lack of such teaching, and the importance of the point can scarcely be exaggerated. The work of instruction is trying and uninteresting, and there is generally a tendency to scamp it. Pamphlets and formal lectures are good in their way, but are of very secondary importance compared with actual personal instructions by the organising or supervising staff in the villages themselves. District and Provincial Conferences are also valuable in stimulating interest and a healthy rivalry but do not afford the solid instruction that is required. In Burma the Registrar has laid down in simple language 10 main principles which every member of a society in that province is expected to learn and know thoroughly, and we were much impressed with the results of this method of training in the efficiency of the societies. The system is of potential value even when the principles are merely learnt by rote, and whether other Registrars adopt the system or not, we think it advisable that they should lay down certain essential heads to guide organizers in their teaching and to save vague talk and waste of energy. These heads would vary according to circumstances but should in our opinion include the following points:—(1) That the object of co-operation is as much to encourage savings as to grant loans on reasonable terms, (2) that the success of a society depends on the mutual knowledge of the members and the exclusion of bad characters, (3) that the liability of the members is joint and unlimited, (4) that loans must be properly used for the objects for which they are sanctioned, (5) that repayments must be punctual and genuine, (6) that the powers of control vested in the General Meeting should be known to the members, and (7) that the source of funds and the constitution of the central financing agency as well as its relation to the society should also be understood by them.

A society, which has once firmly grasped these main points and acts on its knowledge will be truly co-operative, and the fact that it is managed on co-operative lines will constitute the most important factor in its financial position. At the time of organization, and subsequently throughout the existence of the society, the necessity for at least this degree of co-operative knowledge should never be lost sight of.

31. *Position of Honorary Organizers.*—In many provinces much of the preliminary work of teaching and organizing societies is done by Honorary Organizers, and their labours are deserving of great praise. Care however should be taken that their efforts are systematic and not sporadic, and it is also important that the Honorary Organizer who forms a society should, where possible, retain control as a supervising and teaching agent after registration. There are in any case undoubted advantages in insisting that the agent, who forms a society, should afterwards be responsible for guiding it to success. In addition to oral training, good results have been obtained in some provinces by

arranging for the members of new societies to visit older ones and see them at work, and by small and strictly local conferences.

32. *Teaching in primary schools not advocated.*—It has been urged that in order to instil co-operative ideas into the minds of the rising generation, the subject should be taught in primary schools. To this we are opposed. The theoretical teaching and learning of such a subject would be unintelligent, and the school curriculum is already overburdened. Children often accompany their parents to a society's meetings and it is in this way and by general conversation that they can in our opinion best acquire a practical knowledge of co-operation.

33. *The Secretary.*—The Secretary may be a member of a society or not, and, where necessary, there is no objection on co-operative grounds to paying him some remuneration on a strictly limited scale. He should if possible be a local man and not an outsider. We think a local Secretary, capable of performing the duties even in an inferior way, is preferable to a more competent man brought in from outside. The village accountant does not make as a rule a suitable Secretary, but we see no objection to the village school master being appointed Secretary when the Education Department allows him to undertake the work. The functions of the Secretary differ in different parts of India and we do not press for uniformity, but it is essential that as far as possible he should be kept to purely clerical work, such as writing accounts and minutes, and should not be allowed to take into his own hands any of the functions of the Committee. For this reason we view with some distrust the system prevailing in some provinces under which one Secretary does the work of a group of societies in tracts where societies are small and backward. Such a system tends to give the Secretary too much power, and though we recognize that in many cases there is no alternative, we look on this course as a temporary expedient which should be abandoned as soon as opportunity offers.

34. *The Managing Committee.*—There is considerable diversity in the bye laws defining the powers and duties of the Managing Committee, but the main point is to ensure that the Committee should work as a Committee. The Registrar and his staff should take special pains to see that it does its work regularly and as a whole, and does not hand over its responsibilities to one or two active men. It is also important that the Committee should not be placed beyond the control of the general meeting, and though re-election is of course permissible, the period for which a Committee is elected should not as a rule exceed one year.

35. *Committee of Supervision not recommended.*—The remissness of some Managing Committees, their failure to abide by the rules, and their occasional partiality to themselves is only too apparent in India as it has been in Europe. We have been urged, especially by Mr. H. W. Wolff, to insist either now or at a later stage in the movement, on the appointment of separate Committees of Supervision, such as prevail in Europe, whose duty it would be to keep a watch on the work of the Managing Committee. Such Committees have been tried in Bihar and Orissa, Bengal, Assam, and Coorg, but they complicate the machinery, and have not as a rule proved a success. It is hard to find in an ordinary society sufficient men suitable to serve as Supervisors in addition to those required for the Managing Committee, and when men are found, they are generally of inferior calibre to those whose work they are intended to supervise. We would

propose, if possible, to reach the same end by the establishment of Unions (regarding which we have given our views more fully in a later part of this report), and in any case we do not advocate Supervisory Committees in the vast majority of agricultural societies as a suitable feature in their constitution either now or in the near future. In urban areas, where the personnel is more freely available, we think that such Committees might be more successful, and in such cases a trial of the system might perhaps be usefully made. Similar Committees, undertaking the same duties of supervision, but composed of public-spirited persons who are not themselves members of the societies which they supervise, have been tried in some cities and have been found of distinct use in enhancing the efficiency of societies.

36. *Special powers to ascertain debts.*—In connection with the organization of societies, two further questions have been raised, namely, (*i*) whether special powers should be conferred on societies to enable them to ascertain accurately the debts of their members or of persons desirous to be members, and (*ii*) whether it is right for the society to pay off the whole of the ascertained debts of an applicant for membership on his entry into the society.

As regards the former of these questions, a suggestion was made by the Co-operative Conference of 1913 that special powers of the kind suggested should be given, and Local Governments were consulted by the Government of India as to the advisability of legislation to allow a society to call by notice on all creditors of a member or an applicant for membership for a statement of the debts due by him, on penalty of their losing interest thereafter on any claim not preferred. With the exception of the Government of Burma, most of the Local Governments were against taking any action in the direction indicated, and the matter was then referred to our consideration. After a perusal of the opinions received, our view is that no action is required to meet the case of a debtor who purposely conceals his debts, as it is, *ex hypothesi* the duty of a society to be sufficiently acquainted with the circumstances of its members to prevent the election of a debtor of this kind, and consequently we do not think that there is any necessity for giving powers to issue a general notice on creditors to present statements of debts due. The case which is to be met is that of a creditor who refuses to supply a statement of the debt due to him, that is to say, who refuses to give the peasant debtor what every man is entitled to get from his banker, namely a statement of account, and we consider that there is no objection in principle to an arrangement by which a society should be entitled to serve a notice on a named creditor for the submission within one month of a statement of the sum due to him by a member or applicant for membership, subject to the discharge of the debt if he fails to submit a claim and a prosecution under the law if he makes a wilfully false one. In view of the replies given by the Local Governments to the previous suggestion we would recommend that legislation of this kind should be tried experimentally in Burma before being applied elsewhere, and we would add that in our opinion it should be considered whether the above procedure should not be made applicable to all classes of agricultural debts, whether a co-operative society is concerned with them or not.

37. *Paying of debts on admission to a society.*—As regards the further question, whether it is advisable for the society to pay off the debts of a member on his election, we think that no unvarying practice can be followed. The question arises only when the

society considers that the debtor is not too far involved to be extricated from his debts, and when it has funds to pay any sums due by him. In such cases the best plan in our opinion is to arrange to clear off at an early date, but not necessarily on admission, the debts of a new member. Unquestionably from the economic point of view the entire extinction of all old debt and the substitution of the society for the money-lender as a member's sole creditor is the most satisfactory course; but in relieving debt without any corresponding effort on the part of the debtor, there is a real danger of weakening his strength of character and thereby making him a less valuable member of a society than he was otherwise capable of becoming. If the creditor is troublesome and threatening, there is no help for it but to clear off the debtor's debts at once. Otherwise we consider that it is best to pay off a part of the debts at a time, as funds can be spared for the purpose, those paying highest interest being chosen first, and the mortgage debts and others bearing less interest being kept over till the debtor has been sufficiently long in the society for his qualities to be appraised and for the receipt of contributions from himself towards his extrication. We think that a procedure of this kind has a better educative effect than the immediate and wholesale clearing off of debts on admission.

38. *Relation to money-lenders after admission.*—A further question has been raised in this connection regarding the advisability of a provision forbidding members after election to resort to money-lenders for loans. We recognise that as a general rule it is best for members to be indebted to the society only and to no outside agency, but unless steps are taken to finance the members adequately and promptly, any rule to this effect would certainly be evaded. We think it right therefore for societies to abstain from any prohibition against resort by members to the money-lenders, but it should be laid down that the Committee must be duly informed on every occasion when loans are taken from sources outside the society. We would at the same time recommend that all necessary steps should be taken to meet the needs of members by adequate and proper financing within the society itself, and we may remark that the best solution of the difficulty is, wherever this may be possible, to induce the money-lender to lend through the medium of the society by becoming himself a depositor, or to convert a previous debt due from a member into a deposit with the society at a reduced rate of interest and with possibly a reduction also in the capital amount of the claim.

39. *Rate and method of propagating societies.*—It is sometimes urged that the co-operative movement has at present touched only an infinitesimal part of the agricultural population and that if it is to be of any value, it should expand considerably faster than it has hitherto done. We admit that to meet the aims before it co-operation will have to influence a far larger circle than at present, and we contemplate a very extensive development of co-operative societies in the future, but in our opinion it is not the pace at which the movement proceeds which is of importance, so much as the quality of the societies which are established, and we believe that on the whole it is best for Registrars, so far as they control the progress of the movement, to lean towards a policy of caution and concentration. The rate of progress hitherto has been different in different provinces, and the results are affected by many local causes, so that the value of co-operation in a province bears no definite relation to the rate of increase in the number of societies. Indeed its indirect results extend far beyond the actual number of persons who belong to societies, and there is ample evidence that societies

have effectively broken the monopoly of the money-lenders and lowered the general rate of interest on loans prevalent over whole districts. We are convinced that there can be no worse service done to the co-operative movement in India than the encouragement of anything in the shape of comparisons between the rate of progress in one province with that in another, and it would be advisable for Local Governments in future to deal with the progress in each province on its own merits. We believe that the time has come when except for especial reasons an increase in the number of societies should radiate from existing centres of co-operation and should be based on a well-informed desire to imitate existing good examples. When a new district or other similar area is brought into the sphere of co-operation, a sufficient number of experimental societies may suitably be started as examples by a special propagandist agency, but when a financing and controlling centre can be established for them, it should be left to that centre and to the influence of a desire for imitation to carry on the work of propagating the movement in the neighbourhood. We would further note that there are whole Provinces or parts of Provinces in which local circumstances render proper supervision unlikely, and in such areas it is in our opinion a mistake to encourage the extension of the movement in any form.

THE COMPOSITION OF CAPITAL

40. *Composition of Capital of Rural Societies.*—The four main items in the composition of the capital of agricultural societies are (1) shares, (2) deposits, (3) loans, and (4) surplus assets or reserve fund and the figures under each of these heads are approximately :—

	In lakhs of Rs.
Shares	49.00
Deposits	72.43
Loans	247.10
Reserve	24.00

41. *Entrance fees.*—We shall deal with the reserve when discussing the employment of capital, but before proceeding to the examination of the other items, reference may be made to a small source of capital, for which separate figures are not available, namely entrance fees. In all provinces, except Burma and the United Provinces, it is customary to levy these fees from new members on admission, but ordinarily they are small in amount and rarely exceed one rupee. Their object is to cover preliminary expenses, to bring home to members that membership is a privilege which they must make some small sacrifice to obtain, to serve as a proof that a member by a definite and voluntary act of payment undertakes the rights and liabilities involved in his admission, and to discourage withdrawal by making it entail the loss of a small sum. We have seen no evidence that the entrance fees charged are large enough to keep out poor members, and we do not think it of much importance whether they are levied or not.

Shares

42. *Share Societies.*—Share capital appears as an item in the balance sheets of every province, but it is only in the undernoted provinces that it constitutes an integral part of the system.

Province	*In lakhs of Rs.*
Madras	3.72
United Provinces	5.16
Punjab	31.64
Burma	5.77
Coorg	.44
Ajmer	1.23

The shares in Coorg are of the value of Rs. 10 or Rs. 20 each; in Ajmer of Rs. 5; in Madras of Re. 1, and in the Raiffeisen societies of Burma of Rs. 10 each. Such shares as a rule are paid up on admission and carry no dividend or right to participate in any way in the profits. They are only withdrawable on cessation of membership and serve to equalize the first call on members in case of liquidation.

In the Punjab on the other hand and in the United Provinces and in a large group of societies in Burma, a share system has been introduced which appears to be peculiar to India. Shares are of a face value varying from Rs. 10 to Rs. 100 and are payable by yearly or half-yearly instalments spread over 10 years. At the end of that period in most cases the shares are withdrawable, but in the Punjab a tendency to make them permanent has recently appeared. On the expiry of the 10 years' period all three provinces agree in providing that three-fourths of the future net profits shall thereafter be available for distribution among the shareholders in proportion to the shares they have paid up. But a crucial difference lies in the fact that all profits earned during the period of 10 years are carried to the reserve fund in the United Provinces and Burma, while in the Punjab one-quarter of the profits only are carried to reserve and the balance is distributed among the members in the form of new shares.

43. *To what extent Share Capital is approved.*—It will be seen that a large proportion of agricultural societies in India have no share capital and the question arises whether and in what circumstances the possession of share capital should be regarded as a desirable feature in a society. In our view the prime object of every society should be to acquire a permanent capital of its own as speedily as possible. The best method of attaining this object is to arrange for a wide margin between the rates of interest at which societies borrow and lend, thus securing a substantial annual profit to be carried to reserve, and in this respect India is in a peculiarly fortunate position since the high lending rates, that are current, makes the provision of a wide margin a matter of no great difficulty. But in certain parts of the country the members of societies have shown a leaning towards shares, and we see no objection to arriving at an accumulation of owned capital by the route of a share system rather than by that of the reserve fund, provided that shares are not used to create disabilities against poor members or persons desirous of membership or made an excuse for dividend-hunting. Dividend-bearing shares should be recognised as a *pis aller*. When however they are paid up by instalments on a system not unlike that of endowment insurance, we think that there is less objection to them on co-operative principles. We would note that in Europe, where the margin for building up a reserve fund is comparatively narrow, there is now a strong tendency to introduce substantial share capital, and that a proposal has recently been put forward to introduce non-withdrawable dividend-bearing shares in Bihar and Orissa. Where the ordinary margin of profit is small and cannot be raised in view of local con-

ditions and the reserve fund is accumulating slowly, we see no objection to the introduction of shares in provinces in which they have not been previously employed. It is not necessary that they should be small in amount, as large shares payable by instalments are an inducement to thrift, but we would not recommend as a rule very large shares, exceeding (say) Rs. 50. In Burma societies with ordinary Rs. 10 shares are constantly applying to be reconstituted on the so-called Luzzatti system, under which shares of Rs. 100 are paid up by 10 annual instalments, and though we would not encourage the change, we see no harm in it.

44. *Difficulties in the systems prevailing in the Punjab, the United Provinces and Burma.*—The somewhat complex systems obtaining in the Punjab, United Provinces, and Burma, are not without their difficulties. Firstly there is a risk that the original shareholders may discourage new admissions, and that the whole system may lead to a situation approximating that of a tontine. Further in view of the supposed vested interests of the heirs of deceased shareholders, due care may not be exercised in excluding undesirable heirs. Should such tendencies appear, proper steps should be taken to correct them. Secondly in the Punjab where there is a decennial distribution of accumulated profits it is difficult to arrange for the admission of new members during the currency of the decennium. Either they have to pay up the same number of instalments on shares that have been collected from other shareholders up to the date of their admission together with a premium representing their share in the profits accumulated up to date, or they start to pay the ordinary instalments similarly to the original members, and at the final distribution would have to submit to a proportionate reduction in their bonus. The former plan, which is actually employed in the Punjab, seems to us to tend to keep out poorer members; the latter implies more difficult actuarial calculations at the end of the decennium than the ordinary rural society can undertake. Other ways of getting out of the difficulty are to make up the accounts annually, or to wind up the societies and restart them on a fresh system. Thirdly the old Punjab bye laws and the Burma bye laws allow shares to be withdrawn at the end of 10 years. Such shares should normally be set off against loans outstanding or be refunded in cash; and this point might be taken up when the 10 years' period begins to fall in. Fourthly as the number of shareholders permanently entitled to a share in the distribution of the annual profits in the Punjab, Burma, or the United Provinces, increases, the value of the dividends received by the later shareholders will tend to be less than those received by the earlier. Should this take place, the situation must, we think, be accepted, in view of the greater consideration which is due to the pioneers in such societies.

45. *Limitation of Dividends.*—Although we have not found in agricultural societies any marked tendency to inflate dividends, we think it right that in all ordinary cases a maximum limit should be fixed, so as to prevent the neglect of co-operation in favour of individual profit. The maximum may suitably be the ordinary rate charged by a society on its loans. In the case of the quasi-annuity purchase shares such as are found in Burma and the United Provinces, the fact that all the profits accumulated in the ten years go in their entirety to the society's Reserve Fund is enough to keep out dividend hunters. The United Provinces has fixed a maximum to the quasi-annuity distributions to be made after 10 years. On the grounds that such distribution partakes far more of the nature of an annuity than of a dividend and that existing societies are as yet only experimental, Burma has fixed no limit. Steps will doubtless be taken to do so, if after

the financial results of a number of such societies are known, such action seems necessary. In the Punjab, insomuch as three quarters of the accumulated profits of the ten years' working are divisible in bonus shares, the arguments in favour of a limit on dividends will apply.

46. *Deduction of shares from loans.*—We may note that it is a not uncommon practice to obtain shares or instalments of them by deduction from loans granted to members, and it is sometimes urged that shares should be contributed separately from savings instead of by such book transactions. We recognise the force of this argument, but in practice most members join societies in order to borrow, and if compelled to make cash payments for shares would be driven to the money-lender to find the money. When the loans, from which the share value has been deducted, are fully repaid, the shares are in fact paid up from the members' own profits, and we would therefore permit the maintenance of the practice, which is moreover that found in force in many parts of the Continent.

47. *Unlimited liability.*—We may observe here that in agricultural societies, whether with or without shares, the unlimited form of liability is almost exclusively in use. It was held by Sir Edward Law's Committee of 1901 to be the form of liability best suited to agricultural societies, and under the existing law an agricultural credit society must, in the absence of the special permission of the Local Government, be based on unlimited liability. With a few isolated exceptions all the primary agricultural credit societies in India are societies with unlimited liability. The law does not specify definitely the character of the liability, nor have we any data before us to show the interpretation put upon it by the Courts. No difficulties have hitherto arisen in connection with the enforcement of this liability, but should it hereafter be found necessary to define it more clearly we should suggest that it should take the form of "contributory unlimited liability" that is to say that, where there is a deficit in the engagements of a society to its creditors, this deficit should, after the full payment of shares (if any), be recoverable by a series of *per capita* levies upon the members up to the full extent of their property, direct proceedings by a creditor against individual members being forbidden. Hitherto it has been generally understood that the unlimited liability of a society is intended to imply the liability of the whole of the property of the members of a society for the debts due by the society. Some of the less well-informed members are under the impression that it entails the liability of the whole of the property of each member of a society for the debts due by the other members to the society, but the practical difference between the two aspects of the liability is perhaps less than might at first sight appear, and in any case the members of societies when they think of the liability at all appear ordinarily to think of it merely as unlimited and to accept it willingly as such. We have not found that the adoption of this form of liability, where the safeguards against loss are properly understood, has any appreciable effect in keeping out the richer peasants, nor have we met with any demand for the substitution of a limited responsibility. The unlimited liability is not understood to involve any obligation against the alienation of property by members, and although the material basis for the liability is thus rendered somewhat fluctuating and indefinite, we do not consider that an arrangement which would in effect impose a definite charge on all their existing property would be either practicable or desirable. The unlimited form of liability as it now stands has, contrary to the anticipations of many, been unreservedly accepted by the people,

and we have evidence before us to show that it constitutes an important factor in the confidence reposed on societies both by the central institutions inside the movement, and by the Joint Stock Banks outside it. We see every reason therefore for adhering to the principle that agricultural credit societies should be societies of unlimited liability, whether they are with or without shares. In either case the ultimate liability of all the members is in the last resort unlimited, and the advantage of share capital is that, if in case of liquidation the share capital is sufficient to meet any deficit that may be found to exist, there is no need of any further levy to meet the liabilities of the society.

Deposits

48. *Small proportion of deposits hitherto obtained.*—Our returns do not distinguish between loans and deposits derived from non-members, but it may be presumed that the bulk of the funds coming under the double head are deposits. On this presumption the total figures for deposits from members and non-members together in the various provinces are as shown below. Though we recognise that difficulties may be met with in cases where societies are very backward, we consider that in most places there is no other method of tapping local capital. Such deposits imply thrift in the village, form good lying money, and they tend to interest in the management of the society a useful body of men who stand as sentries over their own deposits. We consider therefore that, subject to precautions to be mentioned hereafter, it should be the aim of primary societies to get as much in the way of local deposits as they can. At present agricultural societies, except in the Punjab, have succeeded to a very small degree in obtaining such deposits, and in few things is the finance of co-operation in India so markedly distinguished from that of Western Europe as in the small proportion of deposits held by primary societies. In Germany, more than 87 per cent. of the working capital of the Raiffeisen societies consists of deposits, while in India the corresponding percentage is 18 only. It must be remembered however that even in Europe deposits came in slowly at first, and in India we are still at an early and experimental stage. The rates that can be earned by commerce or private money-lending are often high in India, and the system of depositing is still a novel idea among the agricultural classes. At the commencement of a society it is desirable that deposits should be attracted only by confidence in the society itself, and it is scarcely fair to ignorant and illiterate depositors to hurry them into making deposits before the society has well started work and shown itself trustworthy and competent to deal with this class of business. But when a society is fully established on sound lines it may very rightly do all that it can (subject to any limits that may be placed on its total borrowing power) to obtain such local money as is available, and unless as the movement progresses there is a substantial increase in this class of deposits it will have to be confessed that co-operation has failed in one of its main objects. Such deposits are generally made from money which otherwise would be idle and often from the hoards of the peasants. No attempt should however be made to draw deposits from areas served by other societies or from an outside clientele which would naturally send its funds to Central Banks. Deposits should be strictly confined to men with local interests, and if deposits from this source are larger than are needed, the balance should be forwarded to a Central Bank; it being understood that the Central Bank will in its turn support its primary societies in their dealings with local depositors. We have found cases in which rural societies have been prevented

by the influence of Central Banks from offering sufficient inducement to local depositors, but we consider that so long as local money only is taken, a society is justified, especially at the beginning, in offering such terms as may secure it the capital that it wants.

Province	Total in lakhs of Rs.	Percentage of total liabilities
Madras	5.21	9.1
Bombay	8.89	29.9
Bengal	8.51	18.6
Bihar and Orissa	4.66	34.0
United Provinces	5.10	9.7
Punjab	36.82	28.0
Burma	1.03	3.1
Central Provinces	.93	3.5
Assam	.90	30.0
Coorg	.36	34.9
Ajmer	.02	.2
TOTAL BRITISH INDIA	**72.43**	**18.0**

49. *Members' deposits. Compulsory deposits not recommended.*—Of the deposits received about half are obtained from members, the figures for the various provinces being as shown below. In order to tempt members to deposit, it is in our opinion justifiable (though we find this seldom done) to offer slightly higher rates on their deposits than on those of non-members, the maximum being the rate charged by the society on its loans. It is true that such a course may not in some cases seem to be to the interest of non-depositing members, but as the inflow of local deposits improves the general credit of a society, the members as a whole are benefited.

Province	Percentage of deposits received from members on total deposits
Madras	41
Bombay	72
Bengal	58
Bihar and Orissa	32
United Provinces	20
Punjab	47
Burma	51
Central Provinces	88
Assam	88
Coorg	49
Ajmer	5
AVERAGE FOR BRITISH INDIA	49

A certain proportion of the members' deposits consists in some provinces of compulsory deposits which the members are required to make at stated intervals. These differ from compulsorily subscribed shares in that they carry no liability and their interest is secure. The justification of such deposits is found in the view that thrift should come before credit; but in practice almost all members join to borrow and have at first no money to deposit. As a means of inculcating thrift and building up an owned capital we consider that small instalment shares are preferable to a compulsory deposit system.

50. *Term of deposits should not ordinarily be less than one year.*—The periods for which deposits are received must of course vary, and no detailed statistics on the subject are available, but the term most commonly employed in India is probably one year. It would doubtless be convenient if deposits fixed for even longer periods could be secured, and to obtain them higher rates of interest might suitably be offered, but in view of the fact that yearly deposits in agricultural societies are so frequently renewed and of the relations subsisting between the societies and their central banks, the receipt of long term deposits is not of such marked importance in these primary societies as in the higher stages. We have come across cases in which societies take deposits at call and open current accounts; but although the accounts are no doubt a convenience to the people, the trouble of keeping the accounts and the risk attending this practice make it advisable in our opinion to drop current accounts altogether and to prohibit the receipt of deposits at call in all primary societies, at least for some time to come.

51. *Two exceptions—Short term deposits for temporary accommodation and savings deposits.*—There are indeed only two cases in which we would approve of departures from the rule that all deposits should be fixed for not less than one year—(1) In the first place, short term deposits are often useful to meet demands for loans at times when central banks are not giving out funds, and we see no objection to such deposits for not less than a month, provided that they are made repayable at harvest or at the season when the society anticipates that most repayments will come in; (2) the second exception that we would admit to the rule is in the case of savings deposits, when small sums within strictly marked limits are taken and dealt with on lines similar to those of the Post Office Savings Banks. Savings deposits have been tried in the United Provinces, Burma, and Bombay, and are contemplated in Bihar and Orissa, and their value as a means of encouraging thrift is so great that societies must be allowed to maintain them. There is of course the danger that if a society undertakes to meet demands at call, cash in hand must be maintained and this involves a risk of misappropriation by the society's officers. But we have found that cases of the malversation of such funds are of rare occurrence, and think that the difficulty might be met by arranging to keep a cash balance with a central bank and requiring a few days' notice for every withdrawal. The rate of interest might be left to local decision, subject to the control of the Registrar, inasmuch as it is not the rate of interest so much as the opportunity of depositing and the assurance of prompt repayment that will attract savings. Non-members also should be allowed to open accounts, in order that full use may be made of the opportunities afforded for thrift.

The only possible objection to the opening of savings accounts in co-operative societies is the fiscal objection that by competing with Post Office Savings Banks these accounts would deprive the Government of existing or prospective resources. We under-

stand however that the Post Office Savings Banks were started with the view rather of encouraging thrift than of raising resources. They have hitherto to a large extent failed to attract depositors from the agricultural population, and we do not consider that Government would be justified in closing against agriculturists all other avenues to thrift. The conjunction of savings deposits with the system of co-operative loans is a most important factor in co-operation in all countries, and the Indian legislation on co-operative societies is expressly stated to be based on the desire to promote "thrift and self-help among agriculturists, artisans and persons of limited means." The co-operative societies will furnish to agriculturists a safe method of investing small savings in an institution at their own doors which is managed publicly by persons whom they know and for objects which they can see and test, and such savings have proved in other countries to constitute good lying money. It will of course be recognised that owing to account and resource difficulties only a few societies will at this stage be competent to undertake this class of business. We believe, however, that when once well started the co-operative societies will be used by agriculturists for their savings far more freely than any Government institution can ever hope to be used, and that their use will be attended by far greater economic advantage to the country, and probably also by greater ultimate revenue to Government, than any likely extension of Post Office Savings Banks. In Germany for instance the increase of deposits in co-operative savings banks has been found to be accompanied by a corresponding increase in deposits in public savings banks.* We hold that the people and the Government have everything to gain, by the institution of as many openings to thrift as possible and we think that no obstacle should be placed in the way of free competition between official and non-official agencies for encouraging savings. We recognize however that there are valid objections to the use of the term "Savings Banks" owing to the risk of possible confusion with the Post Office Savings Bank and we think that deposits of this character in co-operative institutions should be termed 'Savings Deposits' and not 'Savings Banks Deposits'.

52. *Limits to borrowing and its effect on deposits.*—Except in the Punjab there is at present little temptation to societies to borrow an excessive amount of money in the form of deposits. But a society which borrows with undue freedom, whether in the form of deposits from the public or in that of loans from the Central Bank, is likely to find itself in difficulties, and for this reason it is incumbent on the Union or Central Bank, subject to the Registrar's control, to assess a definite sum as the limit of the borrowing power of a society. The manner in which this limit should be assessed, will be explained in paragraphs 140-1 below and it will suffice here to explain that the sum fixed as the limit will apply to the total borrowings of the society inclusive both of loans and of deposits.

Loans from Central Banks will only be resorted to when the society has no other funds with which to make loans to its members. Deposits, on the other hand, may be offered at any time, and such offers will be dealt with according to circumstances in one of the three following methods:—

(*i*) If they do not exceed the loan requirements of members and are within the borrowing capacity of the society, they will be accepted and used in loans to

* For the practice as regards co-operative savings banks, in Europe, we would refer to Chapter VI of Mr. Wolff's 'Co-operative Banking'.

members, either directly or by paying off money which the society owes to the Central Bank.

(*ii*) If they exceed such requirements and are still within the borrowing powers of the society, they will be accepted, and the surplus which is not required for meeting loans to members will be forwarded to the Central Bank for deposit. In view of the great importance of attracting this local money from a class of depositors which understands agricultural finance and is little subject to panic, the Central Bank ought, in our opinion, to be prepared to give to societies a slight privilege in its terms for such deposits, accepting them as far as possible in priority to others and granting for them a slightly higher rate of interest than to outside depositors. The sacrifice which the above procedure entails on the finances of the Central Banks, is one which those banks may, in our opinion, properly be called on to bear, as they will benefit from the prohibition which we would impose on societies against interlending otherwise than through the Central Banks, and as it is in any case the primary duty of the Central Banks to support the interests of societies. The money would be deposited by the society in the Central Bank for such periods as the Central Bank considers advisable in view of the possibility of future demands on itself, it being always understood that if the deposits cannot be withdrawn to meet further authorised loans to members the Central Bank will, if necessary, issue loans to the society to the required amount. The deposits so far as the original depositors are concerned must be regarded as deposits made in the primary society and the society will be responsible for their repayment, but the Central Bank will, under the arrangements described in paragraphs 82 and 155 below, be bound to hold liquid resources available for meeting the additional responsibility undertaken by the society, and the Central Bank will at the same time be entitled to notify to societies in advance their inability to take over such deposits.

(*iii*) In cases where the acceptance of deposits offered to a society will cause the society to exceed the limit fixed by the Registrar for its borrowing, and in cases where the society has been informed by the Central Bank that it cannot accept deposits, the deposits even though local in character would have to be declined and the depositors referred to some adjoining co-operative institution.

53. *An illustration of the above.*—An illustration may be useful as showing how the procedure would work in practice. Supposing that the Central Bank has assessed the credit of a society at Rs. 5,000 and that the Registrar, after considering the lapses discovered at the last audit, fixes the limit at Rs. 4,500, this limit of Rs. 4,500 represents the sum which the borrowings of the society whether as deposits from the public or as loans from the Central Bank, may not exceed. At a certain date the society has Rs. 2,500 out on loan to members, Rs. 1,500 of which has been obtained by deposits and Rs. 1,000 by a loan from the Central Bank. It can therefore borrow another Rs. 2,000. The actual additional requirements of members a month later, when the cultivation season is near, are estimated at Rs. 800. The society borrows this from the Central Bank, and then owes Rs. 1,500 to local depositors and Rs. 1,800 to the Central Bank. It subsequently obtains another Rs. 2,100 in local deposits. With this it pays off the Rs. 1,800

due to the Central Bank and deposits the remaining Rs. 300 with the Central Bank. It then owes Rs. 3,600 to local depositors and is owed Rs. 300 by the Central Bank. Later owing to a cattle epidemic the society requires Rs. 1,300 for its members, and after a general meeting applies to the Central Bank for this amount. This exceeds its remaining borrowing power by Rs. 400, but in view of the fact that the Central Bank holds Rs. 300 from the society on deposit, and of the special urgency of the case, the Central Bank agrees with the Registrar's sanction to raise the credit of the society by Rs. 400 and lends that amount to the Society. Later a local villager offers to deposit Rs. 2,000, but as the society has already accepted Rs. 3,600 in local deposits, the society can now accept only the difference between Rs. 4,900 and Rs. 3,600, *i.e.*, Rs. 1,300 out of the Rs. 2,000 offered, and this it takes and with it pays off Rs. 1,300 to the Central Bank.

54. *Repayment of deposits.*—We find that in normal times deposits are repaid as a rule with commendable punctuality by agricultural societies, and even after the present war broke out, these societies have with very few exceptions been able, with the help, where necessary, of Central Banks, to repay promptly such depositors as claimed withdrawal. The class of depositors in these societies is in close touch with agricultural affairs, understands the difficulty of making repayment in times of distress, and can generally be induced to consent to a temporary renewal of their deposits. We have considered a suggestion that all deposits accepted by societies should be accepted on the express condition that repayment may in times of famine or stress be deferred at the discretion of the society, but although we recognize the additional security which this condition would confer on societies and see no objection to its adoption by any society which feels itself in a position to obtain adequate deposits on these terms, we gather from those whom we have consulted on the subject that the condition would ordinarily interfere with the free receipt of deposits at reasonable terms, and we should deprecate any general enforcement of a condition of this kind. So long as deposits in an agricultural society are kept strictly local and are not taken in excess of their borrowing limits, no difficulty should be encountered in refunding them on maturity. We would however in this connection suggest that every opportunity should be given to depositors to make themselves acquainted with the circumstances of the societies which hold their money, by attendance at meetings and examination of accounts, as by this means their sympathy is enlisted and the society benefits by an additional check on its management.

55. *Repayment before due date.*—We have found in some areas a certain amount of indulgence as regards the repayment of long term deposits before the expiry of their terms, the money being repaid on the request of the depositor with interest to date. It is true that at the commencement of a society and in order to attract local money there may be something to be said for such a practice, but if extensively adopted, it must necessarily upset the forecasts of the needs of societies upon which the Central Banks arrange their finances. The practice as regards such repayments in Joint Stock Banks in this country appears to vary, some of them repaying at a discount, others refusing payment altogether, and others repaying capital without interest or with interest at reduced rates. In co-operative societies we consider that such repayments should only be made at the convenience of the society and for exceptional reasons, and that there should always be a substantial reduction of interest on any sums so repaid.

Loans to Societies

56. *Loans from other societies and from private sources.*—The loans received by societies can be classed according to the following main heads: (1) loans from Government, (2) loans from Central and Provincial Banks, (3) loans from other societies and (4) loans from private individuals or institutions, and the income under the first three of these heads according to the last balance sheets is approximately as shown below. We shall speak later of the first two and shall here touch on the last two only.

Source	In lakhs of rupees
Government	7.87
Provincial and Central Banks	216.80
Other Societies	22.43

The loan of money by one society to another requires the special sanction of the Registrar under the Act, and we think it important that such loans should rarely, if ever, be given except through the medium of a Central Bank or Union. Unless the societies are in this way tied to particular financing centres, there is a risk of confusion of liabilities and the Central Bank becomes unable to forecast the calls likely to be made upon it. Even when a society is not affiliated to any Central Bank or Union, we think that the Registrar should not allow any such loan by or to it except through some existing Central Bank or Union.

The amount of loans by individuals to societies is not separately known, being amalgamated in the returns with deposits made by non-members. The distinction between a loan and a deposit for purposes of agricultural societies is so unimportant that we see no reason for classing them separately, and consider that the receipt of such loans should be governed by the same principles as apply to the receipt of deposits.

Proportion of Capital owned by Societies

57. Even after excluding members' deposits, the proportion of the capital owned by societies in India to the total working capital is 22.3 per cent., as against 3.8 per cent. only in the Raiffeisen societies of Germany. It is in our opinion most advisable that the growth of this form of capital which conduces so greatly to the financial stability of societies, should be encouraged in every way, partly by the issue of shares, but chiefly by the building up of reserve funds, with the help of a large margin of interest, and we have no sympathy with the view which has in one province been put before us, that this class of income should be discouraged as tending to make societies prematurely independent of control. The existing figures for the different provinces of India are as shown below.

Province	Percentage of owned capital on total working capital — Excluding members' deposits	Including members' deposits
Madras	13.9	17.6
Bombay	8.4	30.9
Bengal	12.3	23.4
Bihar and Orissa	13.7	24.8
United Provinces	17.2	19.1
Punjab	35.8	49.1
Burma	31.8	33.3
Central Provinces	15.2	8.3
Assam	18.3	45.7
Coorg	63.4	80.5
Ajmer	19.6	19.6
TOTAL BRITISH INDIA	**22.3**	**31.4**

EMPLOYMENT OF CAPITAL

Loans to Members

58. *Meeting urgent demands.*—In granting loans it is necessary to steer between two dangers. On the one hand, if loans are not given with fair promptitude, there is a danger that members may be compelled to revert to the money-lender. On the other hand if money is left in the hands of any official of the society for the purpose of meeting emergent demands, there is a danger of peculation or misappropriation and consequent damage to the reputation of the movement. In our opinion confidence must be reposed in a society's officials and a certain amount of risk must be run, but the risk should be reduced as much as possible. Loans required for the agricultural year or to meet seasonal agricultural demands should in our opinion be distributed at one time, so that sudden and isolated calls for money may be as few as possible. Such special calls should as far as is feasible be dealt with in the same way as other loans by a quorum of the Committee (of not less than 3 in number) and the decision should always be placed on record, but very urgent calls will sometimes occur (as for instance to meet funeral expenses) which cannot be dealt with sufficiently quickly by the ordinary procedure. In such cases a chairman might be willing to advance the money temporarily himself, or might be able to raise it on loan or deposit from a member or local money-lender, but when this is not the case, we think it justifiable, if proper precautions are taken, to allow a selected official of a society, such as the chairman, to give out loans from the society's funds up to a moderate maximum on his own authority subject to subsequent confirmation. This power should be confined within narrow limits, as it will entail the maintenance of cash balances. To secure their safe keeping special arrangements may be made as now

with Government treasuries or police stations in places where these are close at hand. But there will always remain cases where no such special facilities exist and in which the local officials of societies must be responsible for the custody of the funds. When large loans are required they must be either taken from the Central Bank or withdrawn from the Post Office Savings Bank, and where the latter resource is available we think that the special concessions for withdrawal that have been granted in Bombay would probably be found useful elsewhere.

59. *Assessment of member's credit.*—As we have noted in paragraph 52 above the total borrowing powers of a society are fixed by the Central Bank and the Registrar, and the amount which the society can give out on loan is necessarily determined by this limit. But apart from the limit so fixed, it is necessary that the society itself should undertake on its own behalf the fixation (*a*) of a limit up to which the members as a body are prepared to pledge their liability and (*b*) the limits up to which individual members should be entitled to receive normal loans from the Committee.

(*a*) In practically every province it is now the duty of the General Meeting once a year to fix the limit up to which the Committee may borrow without its sanction, and we consider that this practice should be adopted everywhere. The amounts so fixed will be communicated to the Central Bank before the latter assesses the total borrowing powers of the society, and the sums assessed by the General Meeting and by the Central Bank being based on separate considerations are not necessarily identical. If the Central Bank's assessment is less than that of the General Meeting, the borrowings of the society must of course be limited to the amount assessed by the Central Bank. If, on the other hand, the Central Bank's assessment is the larger, the Committee may borrow up to the amount already sanctioned by the General Meeting, and may also borrow the balance if it obtains for this step the sanction of the General Meeting.

(*b*) The necessity for fixing also the limits up to which individual members should receive normal credit is due largely to the fact that in the absence of such a standard there is a temptation for the members of a Committee to sanction larger loans for themselves and their friends than is equitable. It is true that the limits for loans to Committee-men might be fixed in the bye laws, but such bye laws might easily be evaded. Much may be done by publicity and constant inspection to counteract the tendency in question, and the fact that members of the Committee obtain excessive loans should be regarded as a blot on the management which will impair the credit of a society. But the most effective method of meeting the difficulty and one which is useful also in other ways in the system of assessing the maximum normal borrowing power of each member. A system of the kind is in force in several provinces, and as societies get more firmly established should, we think, be extended everywhere. What we suggest is that the annual General Meeting should fix the maximum normal credit for each member for the following year. This would be fixed after a consideration of the ordinary requirements of his occupation, his earning capacity, and his character; the earning capacity being estimated primarily with reference to the rental or revenue, if any, paid by him and the value of his property. This maximum the Committee would be forbidden to exceed on its own authority. Where cases occur in which additional sums are required to meet a famine, to discharge old debt, or to release land from mortgage, a special reference would

have to be made to the General Meeting. While societies are still in their infancy and largely occupied with these abnormal loans, the fixing of normal standards would be difficult. But as these special needs disappear and demands approximate more frequently to the normal—as is usually the case in Europe—a standard of this kind will be more easily applied. It will of course be clearly understood that a member is not entitled as of right to obtain the full amount fixed, the standard being merely the maximum limit beyond which the Committee may not go on its own authority.

The procedure may be illustrated briefly as follows. The General Meeting of the society decides to limit the borrowing power of the Committee inclusive of previous borrowing to Rs. 6,000, but the credit assessed for the society by the Central Bank and Registrar is limited to Rs. 4,500. The Committee may thus without further sanction from the General Meeting borrow up to Rs. 4,500. If the sums fixed by the General Committee and the Central Bank had been (say) Rs. 4,000 and Rs. 4,500, respectively, the Committee might borrow up to Rs. 4,000 without the sanction of the General Meeting, and could with the sanction of the General Meeting borrow another Rs. 500 without further reference to the Central Bank. The General Meeting would in the meantime, have fixed the maximum normal credit of member A at Rs. 500, of B at Rs. 300 and so on: and the Committee would not be entitled to give more than Rs. 500 to A or more than Rs. 300 to B without the approval of the General Meeting. The total of their individual maximum normal credits would not bear any necessary relation to the sum fixed by the General Meeting as the total limit for borrowing, but ordinarily as a matter of convenience they would somewhat exceed that sum, as all the members would not be expected to need the full amounts of their maximum normal credits.

60. *Pro-notes and pass-books.*—Loans are given in some parts of the country on promissory notes and in others on bonds, and doubts have been expressed as to the class of security which should ordinarily be adopted. As regards the distinction between the two forms of security, we understand that a pro-note differs from a bond in that (1) it must be unconditional, (2) it must specify a certain sum, (3) it must specify a sum of money, (4) it is ordinarily negotiable, and (5) it constitutes a promise to pay and oral evidence cannot be adduced to prove that money, which under it must be paid by a certain date, need not be paid until a later date. Assuming that the above differentiation is correct, our view is that if the terms of loans to members are clearly recorded in the bye laws, the minutes, or elsewhere, the pro-note has advantages over the bond. We do not think that the power reserved by a demand pro-note of recovering at will is likely to deter members from borrowing, and on the other hand the pro-note is the form of obligation best understood by outside banks and the form which has ordinarily to be adopted by societies in borrowing from Central Banks. Bills are the means usually adopted in Europe, and though societies would in practice find it impossible to call in loans in bad years in this country, it is always well to have the power to do so. In some parts of the country as in Burma the pro-note represents the ordinary bazaar practice, and as the movement extends and cash credits to individuals increase, the pro-note will become the form of obligation naturally adopted by societies.

In most areas, with the exception of Burma and parts of Bombay, it is the rule that each member should have a pass-book showing his borrowings and payments in ledger

form, and we consider this to be a proper arrangement which should not be abandoned, although in parts of the country, such as Burma, where the population is generally literate we have found the same object sufficiently attained by affixing, in a prominent place in the village, a statement of the amounts held on loan by each member,—a system which has the additional advantage of acquainting the members with each other's loans. When pass-books are used, it might be of service if a note of the main principles of Co-operation (see paragraph 30) were printed on the inside of the cover of these books.

61. *Loans to non-shareholding members.*—In the Punjab we have found members allowed to borrow without being required to take shares or being entitled to participate in the distribution of profits. We look on this practice as opposed to the whole principle of Co-operation, as it enables the shareholding members to draw dividends at the expense of their non-shareholding brethren. We understand that in all recently formed societies non-shareholding members are not permitted in the bye laws and that they are only found in societies constituted during the early years of the movement. Nevertheless efforts should in our opinion be made to get rid of the system as regards existing members also as soon as possible, and we suggest that some fair means of effecting this object should be evolved in consultation with the societies.

62. *Objects of loans.*—In the Government of India's Resolution of 1914, it was explained that it was impossible to insist on the restriction of loans to productive objects and the circumstances were stated under which unproductive loans were permissible and indeed advisable. All that we would add is that precautions should be taken by societies in such cases to see that the expenditure is inevitable and that it is not excessive in amount. We have no general statistics regarding the objects for which loans are given, but from those published in some of the provinces it may be gathered that the chief objects are usually cultivation expenses, the purchase of cattle, the redemption of mortgage and the payment of old debt, while among the subsidiary objects mentioned are the payment of land revenue, the holding over of grain for a fair market, purchase of fodder, personal maintenance, ceremonial expenses, litigation, purchase of implements, trade, education and the like. As regards the holding over of grain for a fair market, we consider this to be within limits a legitimate object for a loan, but if advances are made for buying up and holding over the grain of other persons besides the borrower, they should be treated as loans for trade; and both in these cases and in cases where they are given to enable peasants to secure reasonable prices for their own produce, the period of such loans, in accordance with banking practice, should be strictly limited to (say) 3 months. In some provinces much of the money lent ostensibly for payment of land revenue, comes in reality under this head, and no small part of the remainder of the loans advanced for payment of land revenue is in reality for objects for which funds have been used that would otherwise have been available for land revenue. We would add that too much should not be expected from co-operation in the way of assistance to expensive improvements in land, such as masonry wells and large embankments, as the investment of money on such objects can only be recouped in a long term of years, and it is at present ordinarily impossible to provide loans for a term exceeding 4 or 5 years. For the financing of such improvements recourse must ordinarily for the present be had to advances from Government under the Land Improvement Loans Act.

	Percentage of total amount of loans given for		
	Cultivation expenses	Purchase of cattle	Payment of old debts
Madras	6	11	44
Bengal	9	10	44
Bihar and Orissa	14	14	25
Punjab*	9	20	17
Assam	15	23	32
Central Provinces	24	40	24
Coorg	66	..	25
Ajmer	16	7	9

* In the Punjab the percentages are of the number of loans,

63. *Recall of loans for misuse.*—From our examination of societies we gather that as a rule little care is taken to see that loans are used for the objects for which they are given. There are indeed rules in most provinces allowing the recall of loans for misuse, and in some provinces the borrower may be made to pay penal interest or to undergo a fine. It has also been suggested to us that the Committee of the society should be made responsible under the bye laws for any financial loss that may occur to the society from their neglect to take action in such cases, and it is urged that a rule of the kind though it would seldom be enforced would have an excellent effect and strengthen the hands of the Committee. Whether a provision of this character be adopted or not, we would advocate the strictest enquiry at inspection into the proper use of loans, and any remissness under this head ought to affect adversely the credit of a society.

64. *The periods for which loans should be given.*—The ordinary practice in India is to fix the period of loans at the time when they are sanctioned, and this we think to be correct. In one province it is customary to fix the nominal term at one year and to allow extensions up to 5 years provided that one-fifth is repaid annually, but this system is rightly being abandoned. No special principle can be laid down for determining the period of non-productive loans, but as a rule they should be for short periods not exceeding two years. In the case of loans for productive purposes, the period should be long enough to allow the borrower to make repayment from the proceeds. It is true that the amount of the loan and the circumstances and repaying powers of the debtor are factors that must be taken into account, but excessive dependance on these considerations opens a loop-hole to favouritism, and it is important to arrange for the adoption of a standard by which societies should regulate their loan. We find that in Burma the subject is regulated in the bye laws, loans being classified as:—(*a*) Loans for seed, food, cultivation expenses, or cattle-fodder, (*b*) Loans for purchase of carts or cattle, for liquidation of small debts, and for house building, and (*c*) Loans for liquidation of large debts, purchase or redemption of land, or expensive improvements of land. The first class must be repaid immediately after the next ensuing harvest; the second in 2 or 3 years; and the third in 3 or 4 years. The Committee is left no further discretion to vary these terms at the time of granting the loans, but has authority in exceptional circumstances to sanction an extension up to one year when the time for repayment arrives. We consider that a somewhat similar classification of loans with similar standard maximum periods might

be incorporated in the bye laws of each province, the Committee being empowered to fix longer terms, at the time of granting the loans, for special reasons only, and it should be held an important part of the duties of supervising officers to see that good reasons exist for every departure that has been made from the standard term. It will also, for the reasons to be given below, be a great convenience if all or nearly all loans are made repayable at harvest.

As the funds available especially at the commencement of a society will ordinarily be insufficient to meet all demands, care should be taken not to lock up too large a proportion of them in long-term loans. The length of the periods of loans to members will depend partly on the length of the terms for which societies can borrow money and partly on local conditions including the relation of the sale value of produce to the capital value of land and the percentage of land-value up to which it is customary to grant mortgage loans, but it will seldom be possible in the present circumstances to grant loans for periods exceeding 5 years. Long-term loans will usually be larger in amount than those for short terms and it will obviously be unfair to devote too large a portion of the funds available to this class of loans. At the beginning of a society's career its object should be rather to meet the needs of the classes requiring short-term loans, but as the proportion of the society's 'owned' capital increases, and as the amount obtained from long-term deposits and available for advances grows, the proportion of long-term loans may be simultaneously increased. After this a further stage will be reached in which the loans for liquidation of debts will be less frequent and the normal loans will be for the ordinary operations of agriculture and for comparatively short terms.

In some parts of the country we have found large sums lent out for two or more years and made repayable in a lump sum at the end of the period. This is in our opinion an uneconomical system and inconsistent with the principle that repayments should always be made out of the proceeds of the loans. In all cases where the period of a loan exceeds one year, repayments should be made by compulsory annual instalments. This is the Raiffeisen rule and it would be dangerous to abandon it. In fixing instalments for recovery we think it best to make the principal repayable by equal instalments, interest being calculated on each occasion up to the date of actual payment, rather than to attempt to work out equated payments of interest and principal taken together. The latter procedure, though simplifying the demand, is apt to cause great confusion of accounts if payments ever fall into arrears.

65. *Sureties.*—It is a well-known and distinguishing characteristic of co-operative credit that the primary security for all loans is personal. By this it is meant that it is to the man himself and his sureties rather than to his property that regard is paid when a loan is given, but in some quarters we find that this principle is interpreted to mean that a debtor should alone be responsible for his loan, and that no sureties need be demanded from him. In the Central Provinces it is optional to require sureties, and in other Provinces such as the Punjab, Coorg, and Assam, they are only taken in exceptional cases. Justification for this practice is sought on the ground that a borrower has sometimes to pay some fee in order to get a surety, and that by the constitution of the society the members are already jointly responsible for each other. We have however little reason to believe that if proper precautions are taken sureties cannot be found

without payment of a fee and we consider that there are advantages in interposing all such securities as are available before endangering the Reserve Fund. By the provision of such securities recovery is facilitated and a further safeguard is obtained against the grant of excessive loans or the misapplication of money borrowed. The practice is almost universal in Europe and we consider that it should be made the rule in India.

It is open to a society to accept as sureties persons other than its own members, and by doing so it widens the area of liability, but there is always some risk in this course as such persons are not amenable to the discipline of the society and cannot be dealt with under the arbitration procedure allowed by the Co-operative Societies Act. It will therefore be advisable as a rule that sureties should be members, and we consider that so long as a member does not become responsible on behalf of himself as principal and of others as surety for more than he can be relied on to pay, there is no objection to members being mutually responsible for each other, either in groups of three or otherwise. A system commonly followed is to require one surety for a small loan, two for a larger loan and so on, and we see advantages in this arrangement as it places fewer difficulties in the way of small than of big loans. We would further lay stress on the importance of making sureties realise their responsibility. We have come across cases of default in which the officers of a society held that it would be cruel in cases of default to proceed against "the poor surety", and we hold strongly that there should be no hesitation in making recovery from sureties when the debtor fails to pay, before having recourse to any ulterior form of recovery. Without such action it is impossible to maintain in members the sense of mutual responsibility which is the main safeguard of the movement.

66. *Tangible security in Co-operative Societies.*—It will be convenient for us here to explain briefly the attitude of co-operative institutions towards real security. It is a central principle of co-operation that security should be personal; that is, that it should depend primarily on the man and his sureties and not on his property. The idea of personal security however implies the power of a member to repay, and this in its turn depends on his capacity as a worker, his honesty of character, and the amount of his property. A Co-operative Society differs from an ordinary money-lender in that it takes cognisance of all three factors, while the latter looks at the last only. There is nothing unco-operative in the hypothecation of immovable property, so long as it is recognised that personal security must be given and that the borrower's property is only a secondary or collateral protection. It follows from this that, when tangible property is accepted as security for a loan, it should be taken in addition to the instruments executed by the borrower and his sureties, and not in the place of them; and we think that the existence of a pledge or mortgage should not absolve societies from taking sureties also or from proceeding, in case of default, against the sureties *before* taking action against the property.

67. *Hypothecation of movable property.*—Movable property, such as cattle or carts, is sometimes taken as security, and it may incidentally be noted that as the system of cattle insurance extends, the value of cattle as security will be enhanced. There are cases where other kinds of movable property are accepted, but the practice of hypothecating this class of property is uncommon. With regard to the hypothecation of shares we would wish to remark that we consider it undesirable that any society should permit its members to hypothecate their shares in the society as security for loans, because in such cases the

society can only enforce the security by diminishing its "owned" capital and thereby reducing its general credit and the security of creditors.

68. *Mortgage of land.*—As noted above, the mortgage of land should only be regarded as a form of collateral security in addition to sureties. In some Provinces more general use has been made of mortgages than in others and in our opinion they have been more freely employed than is necessary. Though the practice, as we have said, is not in essence unco-operative and is in fact growing more common in Germany, it should be resorted to sparingly. It is justified in cases where land has been redeemed with the money advanced, as the new mortgage simply takes the place of the old one, and also in cases of large or long-term loans where there is some risk in relying only on the personal element. In view of the unlimited liability of the members, a borrower's landed property is indeed always liable to sale in order to make good any default, and the main object of taking a formal mortgage is to prevent the alienation of the property to outside parties. We have found cases in which mortgages of the whole of their land have been made by the members of societies to societies and by whole societies to unions—especially in tracts newly colonized or irrigated—in order to protect the society from alienation to outsiders. The object of the societies in such cases is ordinarily to bind all the members together in a single self-contained body of borrowers and the motive is a high sense of co-operative unity. So long as the practice remains entirely voluntary we see no objection to its adoption from the point of view of co-operative organization. Mortgages as a rule should be without possession, as this forms a sufficiently unimpeachable security, and societies are by their nature unfitted to manage land corporately. In some places societies take a mortgage with possession, and relet the land to the mortgagor for an annual sum covering the instalment of the loan and the Government land revenue demand; but this method seems to us to be cumbrous and to be unnecessary, unless it is done as part of a scheme for the co-operative management of land.

Province	Percentage of loans secured on mortgage (collateral or other) on the total amount advanced during 1913-14
Madras	47
Bombay	43
Bengal	7
Bihar and Orissa	*Nil*
United Provinces	.2
Punjab	1
Burma	36
Central Provinces	9
Assam	3
Coorg	100
Ajmer	*Nil*
Total British India	14.1

69. *Concession in cases where alienation is forbidden.*—Owing to the laws prevalent in certain tracts for the protection of the peasantry, it is not always possible for a Co-operative Society to obtain a valid mortgage on which it can sue for sale. The society has ordinarily in Bombay, Berar, Madras, Coorg, Burma, Assam, Ajmer and the Punjab to deal with the small occupant or landholder: while in Bengal, Bihar and Orissa, the Central Provinces and United Provinces its main constituents are tenants with a more or less secure right of occupancy. In the first five of the Provinces above named there is usually (putting aside special cases and special tracts) no difficulty in obtaining a valid mortgage and suing for sale in default of payment: and in certain cases in Coorg and Burma a Co-operative Society is by a special order enabled to obtain a mortgage on land. In Ajmer a mortgage without possession can be obtained but, as sale in execution is forbidden, the only remedy in default is for the society to be placed in possession for a term of years; and the same would appear to hold good as regards the land of a member of an agricultural tribe in the Punjab. It is however with regard to occupancy tenants that the difficulties regarding this form of security are most keenly felt. In the Agra Province an occupancy tenant can mortgage to co-sharers only: in the Central Provinces a mortgage by an occupancy or ordinary tenant in favour of a society can be voided at the instance of the heir or co-sharer and no decree can be passed for the sale in execution of a right of occupancy or ordinary tenant rights: while in Bengal and Bihar a society can only obtain a valid mortgage from an occupancy tenant in cases where a custom can be proved establishing the tenant's right to mortgage, and a custom allowing such a right in the absence of the landlord's consent is said to be very difficult to prove. It has been represented to us that in the case of occupancy tenants a society should be specially entitled to obtain a mortgage and (subject to certain safeguards in respect of the subdivision of holdings and the right of the landlord to object to the transferee) to bring the land to sale in execution. It is contended that the restrictions which are intended to guard against rapacious money-lenders are out of place when the mortgagee is a benevolent co-operative society, and that in any case the power of sale would only be exercised in rare and extreme instances. It is further urged that, as a society has under the law a prior claim on crops grown with the aid of a loan given for seed or manure, there can be no objection in principle to its having a lien on land, at any rate in respect of land freed from encumbrance by loans made for the repayment of old debts. The question is of course one which has to be considered in connection with the general tenancy arrangements of the provinces concerned, but our feeling is that if arrangements can be made with the concurrence of the landlord class to secure this concession for societies in areas where they would ordinarily be unable to obtain a mortgage, there can be no reasonable objection to it on the mere ground that the concession is not enjoyed by other creditors. Evidence has been given to us of the extreme insecurity of tenure in certain tracts, and, without desiring to enter into a question beyond the scope of our report, we feel that we are justified in pointing out that unless a tenant, who is a member of a Co-operative Society, has a reasonable assurance of continuing in enjoyment of his holding, and is free from the liability of having his earning power suddenly terminated without any fault on his part, it is impossible to invest much money in financing him through co-operation.

70. *Prior claim on Crops, Cattle, etc.*—We gather that the provisions of section 19 of the Act, which gives a society a prior claim on crops grown by the aid of loans from

it, are largely inoperative, partly owing to difficulties in proving that a particular crop has been grown by means of a particular loan, and partly owing to a ruling of the Calcutta High Court which allows an outside decree holder to attach a crop in priority to a society unless the society also obtains a decree in its favour. We are unable to support a suggestion which has been made that the lien on crops should apply in cases of all loans by societies without reference to their particular purposes. A further proposal, however, to the effect that the lien, as granted by the Act, should operate against outside attachment or sale, even in the absence of a decree in favour of the society, has more to commend it and we think that when the Act is next amended the prior claim of the society might be definitely described as a "charge" on the property in respect of which the loan was granted.

71. *Facilities for investigating and verifying title.*—We may in this connection represent the advantages which a society enjoys in the investigation of title, prior to taking a mortgage, from the existence of a properly kept Record of Rights, and may add that its own title as mortgagee would be more certain if such Records always included mortgages without possession. We need hardly add that any improvements in the direction of a clear registration of title would be of immense value to Co-operative Societies in their dealings with land. In areas where mortgage is permissible we would specially deprecate any retrograde action which might make the mortgage of small holdings more difficult and would advocate any measures that would facilitate cheap and easy mortgage. We learnt with regret that in Upper Burma an admirable system of oral mortgages attested by Government officers, which had been found of the greatest service by Co-operative Societies, has recently been abolished.

72. *The rate of interest on loans to members.*—There are we think advantages in not allowing the rates of interest charged on loans to be altered too readily as thereby rates may be lowered before an adequate Reserve Fund has been accumulated, or favouritism may be made possible. Moreover a variety of rates causes difficulty in the accounts. The rates should accordingly be entered in the bye laws and made unalterable without the sanction of the Registrar. No special rate need be fixed for mortgage loans because, as we have said, the main security is the borrower himself and his sureties, and he may reap the advantage of giving a mortgage by obtaining a larger loan. The rates in various Provinces differ very considerably and rates are not necessarily uniform within a Province itself. Since local conditions vary and the presence or absence of intermediate agencies affects margins, we do not think uniformity possible. There is strong testimony everywhere that the competition of societies has brought down the rates of outside money-lenders and in some cases the reduction has been so great that societies in their turn have lowered their own rates. It is often imagined that a society is not doing its duty unless it makes considerable and continuous reductions in the rates which it charges for loans to members; but we cannot too strongly insist that its first duty is to build up a reserve fund. The best method of saving is to increase the society's owned capital, and half the difficulties experienced by Central Banks in financing societies arise from the fact that the rate of interest charged on loans to members has been pitched too low or has been reduced prematurely. We agree entirely in the attitude, taken up by the Government of India in its Resolution of 1914, that so long as the rates of societies are below those of the outside market, they cannot be regarded as excessive, and that

there are many dangers in sudden or large reductions below such rates. If the rate of interest is pitched too low, there may be a tendency for organizers to take the line of least resistance and to form societies among persons of higher status than those for whom co-operation is primarily intended, and for such persons in their turn to exclude the poorer classes from admission. If the argument is raised that members could borrow money in the open market at rates equal to or lower than those which the society can afford to charge, the presumption is that they stand in no great need of the credit which a society supplies.

Province	Rate of interest ordinarily charged on loans
	Per cent.
Madras	$9\frac{3}{8}$
Bombay	$9\frac{3}{8}$
Bengal	15
Bihar and Orissa	$15\frac{5}{8}$
United Provinces	15
Punjab	$12\frac{1}{2}$
Burma	15
Central Provinces	12
Assam	$12\frac{1}{2}$ to $18\frac{3}{4}$
Coorg	$12\frac{1}{2}$
Ajmer	12

73. *Cash credits to members.*—In Europe the practice of allowing cash credits to individual members is common and increasing, and we consider that when societies are firmly established on correct principles, there is no better way of meeting the needs of members. At present this practice in India is confined to an exceedingly insignificant number of societies, and will not for a long time become at all common. When more generally established, it will of course affect many of the arrangements which we have discussed above, and which are based on the presumption that all loans are given out for fixed terms.

74. *Evils of laxity in recovery—Calculation of overdue loans.*—There is, we think, no defect more prominent or more dangerous in the management of co-operative societies in India than the exceeding laxity and unpunctuality in the repayment of loans as tolerated by societies in some provinces. This is carried so far that the Committee of a society will sometimes admit that they are in no way anxious to recover principal outstanding so long as interest is paid regularly. We cannot too often insist that unless loans are repaid punctually, co-operation is both financially and educationally an illusion; and no exertions are wasted which aim at ensuring promptitude in this respect. It is for this reason, as well as to enable Central Banks to forecast correctly their probable annual recoveries, that not only every society but every member should be able to ascertain clearly what amounts owed by members to the society are overdue. There must of course be cases where for good reasons a member is unable to make repayment on the date fixed, and the Committee of the society is then justified in granting an extension. A sum for which further time has been so sanctioned should not be classed as overdue, but care

should be taken that an order giving adequate reasons for the extension is clearly on record. Such sums correspond to "authorised arrears" in the Government Revenue Accounts, and it has been suggested that if a statistical return of these sums were available, it would be a check on the undue grant of extensions by Committees of societies; but the difficulties in dealing with arrears in the accounts are already so great that we hesitate to suggest any additional returns of the kind. It is, however, essential to know what sums, for which extensions have not been granted, have not been repaid, and we find that this vital need is in most provinces much neglected. It is of course desirable that each member should if possible know how he stands with regard to each loan that he has taken, and it would be quite feasible to maintain a separate ledger account for each of his loans and to apportion repayments to capital and interest respectively among them according to some pre-arranged system, but many societies cannot depend on obtaining accountants with the skill necessary to do this. A system has accordingly been devised in Burma by which the accounts of each class of loan under the system described in paragraph 64 above are kept separately, and although a member is not thereby supplied with a separate account for every loan within each class, both he and the society obtain with the minimum of accounting a clear statement of the total amount in each class actually overdue at any particular time. The success of the system depends on the simplicity and clearness with which the accounts are kept, the arrangements under which all loans are made repayable at one time, namely, the harvest season, and the restriction of all loans to the three classes of periods mentioned; and it represents the best means which we have yet seen for obtaining with the agency available a clear idea of the amount of loans overdue. Without recommending that this particular scheme should necessarily be adopted, we consider it essential that any system of accounts which may be followed should give this most necessary information, and we would observe that the more the system of fixing periods is simplified and the power to grant renewals restricted, the easier will it be to find a method of accountancy which will meet these requirements. When at some future period a system of cash credits to members becomes common, there will of course be nothing technically overdue from such members as are drawing on cash credits, and it will only be necessary to see that accounts are properly operated on, but until that time comes there is nothing in our opinion more important to the success of the movement than the provision of clear information as to the punctuality or unpunctuality with which loans are repaid.

75. *Data regarding Payments—Grain Payments.*—Owing to the fact that the term 'overdue loans' is differently interpreted in different Provinces, much reliance cannot be placed on the figures for overdue debt quoted in the Annual Returns. We give, however, below figures showing for the last 4 years the average percentages of repayments in each province annually on the total amount of loans outstanding at the end of the previous year *plus* the amount advanced on loan in the course of the year. For purpose of comparison these figures are vitiated by several circumstances which we need not detail, and we do not desire to lay undue stress on them at the present stage, but they suffice to give a fair general impression of the rate of recovery and the relation of repayments to the total amounts outstanding. This relation, though varying now considerably from year to year, and from province to province, will, as time goes on, approach a normal figure.

The almost universal practice is for repayments, like disbursements, of loans to be made in cash and this is in ordinary circumstances the only convenient method. In some parts of the country, however, it would probably be easier for the agriculturist at harvest time to make repayment of a loan or payment of an insurance premium in kind than in cash, and in such cases the society might by a private arrangement with the member accept the grain for subsequent sale and credit the member with the price realized. It will, however, be at once recognised that such an arrangement adds largely to the complication of the accounts and to the opportunities for loss and fraud. For this reason we would confine the use of grain payments to the strictest possible limits and in view of the growing use of cash in agricultural areas we anticipate the gradual disappearance of the conditions which would justify the adoption of such payments.

Percentages for the last four years of repayments in each Province annually on the total amount of loans outstanding at the end of the previous year plus *the amount advanced on loan in the course of the year*

Province	1910–11	1911–12	1912–13	1913–14	Average percentage for the last 4 years
1	2	3	4	5	6
Madras	25.4	23.8	26.0	26.6	25.6
Bombay	40.4	31.4	29.1	39.7	35.1
Bengal	26.9	28.5	23.4	22.1	23.8
Bihar and Orissa	..	..	29.9	36.9	34.1
United Provinces	47.5	44.8	47.8	37.9	43.7
Punjab	28.5	27.4	27.3	26.7	27.2
Burma	36.8	36.2	29.2	28.7	31.7
Central Provinces	38.1	36.3	33.1	26.4	30.0
Assam	18.8	8.1	21.3	27.1	16.3
Coorg	43.9	44.5	40.1	46.0	43.7
Ajmer	31.4	34.4	47.3	25.2	35.6
British India ..	33.3	31.2	31.7	29.6	31.0

76. *Penal interest.*—One of the methods of dealing with arrears which has been commonly adopted is to charge penal interest on the amount overdue at an enhanced rate from the date of default, and we see no objection to this practice if societies desire it. We doubt, however, if it is very effective; the change in the rate of interest tends to confuse the accounts; there are legal difficulties in connection with its enforcement; and societies are sometimes tempted by it to tolerate the continuance of outstandings and

to forego the application of the personal pressure which should always be the first of the precautionary measures to be adopted.

77. *Fictitious repayments.*—An insidious and dangerous irregularity is the practice of allowing renewals based upon fictitious repayments. The practice consists in showing an outstanding loan in the accounts as fully repaid, and sanctioning on or about the same date a fresh loan of the same amount, actual repayment either not taking place at all or being made purely as a formality. A remedy that has been suggested is that there should always be an interval of one or more months between the recovery of one loan and the grant of the next. We recognise that the evil is a very serious one, undermining as it does one of the chief principles of co-operation, and special care should be taken at inspection to bring to light any cases in which a suspicion of such paper adjustment arises. We doubt, however, if the proposed remedy could always be suitably applied, as cases will occur in which fresh loans for other objects can most advantageously be granted before or about the time fixed for the repayment of the original loan. There is always a risk moreover that a short interval will be tided over by means of a loan from the money-lender. In some provinces it is true that the majority of repayments are arranged to fall due at one time, some 2 or 3 months before the bulk of loans for the next season are advanced, and in such provinces a natural safeguard is provided. Elsewhere the only method of combating the evil is by special care at inspection to expose all such cases and to watch the maintenance of a proper working relation between the money received from members and that paid to the Central Bank. If this relation is regularly observed, paper adjustments, except on a very small scale, are bound at once to come to light.

78. *Decision of disputes.*—We have no proper data to indicate the amount of litigation between societies and their members. Such litigation has in some provinces been undertaken with too great readiness, and we think that it should ordinarily not be resorted to till other means, more especially the employment of pressure on the sureties to arrange for repayment, have first been tried. We have received complaints of various kinds regarding the difficulties attending such litigation. On the one hand it has been brought to our notice that a suit based on a mortgage of real property in a presidency town must, under the present arrangements, go to the High Court, and that the consequent expense and trouble is more than co-operative societies can face. On the other hand officials of societies have expressed a strong sense of exasperation against the delays and inconveniences connected with the ordinary subordinate Civil Courts and we have everywhere been met with a demand for a more summary method of dealing with arrears. The point has been several times before the Government of India, and we agree with the position taken up by the Government of India that the existing law should not be interfered with. So far as the decision of disputed cases of arrears is concerned the powers given in the Co-operative Societies Act are sufficient. The Act allows a Local Government to provide by rule that disputes should be referred to the Registrar and if he so directs to arbitration. Several Local Governments have taken advantage of this permission and we think that it would be found useful if the system were adopted everywhere.

79. *Summary Procedure in execution not advocated.*—The chief difficulty, however, arises not in getting the claim of a society decided, but in securing execution of the decision. The Act allows rules to be made prescribing the mode of enforcing the decision of

the Registrar or the award of the arbitrators under the provision above mentioned, and we think that Local Governments should prescribe that these decisions and awards should be enforced in the same manner as a decree of a Civil Court. It has, however, been urged before us by a large body of public opinion that the delays and evasions inevitable from the existing system of civil procedure are such as would often render a decision or award so obtained entirely ineffective. We are told that the officers presiding in the lower Civil Courts belong frequently to the same class as the money-lenders, and are in consequence biassed against co-operative societies, that they insist on unnecessary formalities of evidence, that in cases instituted before themselves they often award interest from the date of the decree and not from the date on which the suit was filed, that they grant rates of interest much below what the society charges on its loans, that an unnecessary number of instalments are allowed for repayments, that the Court peons connive at the removal of property from attachment by judgment-debtors, and so forth. It is urged therefore that decisions and awards of the class under consideration should be made enforceable by the procedure allowed for the recovery of Land Revenue. Some would allow this in all cases; others would confine it to cases in which it was specially permitted by the Registrar, or where there was no outside creditor whose claims could be prejudiced. It is urged that the procedure, once sanctioned, would seldom be used, but that the mere possibility of its use would add immensely to punctuality of repayments. A rule allowing societies to recover their arrears similarly to arrears of Land Revenue was actually passed by a Local Government in 1905, but was disallowed by the Government of India on the ground that the provisions of the Act did not permit execution except through a Civil Court. The Act of 1912 repeats the provisions of the old Act and the procedure proposed could only be introduced by a change in the law. The subject has been repeatedly discussed at Conferences, Imperial and Provincial, and the proposed change has a large body of opinion behind it. A procedure similar to that proposed is in force in Mysore and forms a feature in some of the Land Mortgage Credit Banks of Germany. After carefully considering the arguments we are, however, opposed to any change, and we endorse the view hitherto consistently held by the Government of India that a special privilege of the kind is not called for and that it would lead to laxity in the selection of members and carelessness in the grant of loans. The existence of a special procedure for co-operative societies would intensify any feeling of opposition to the movement which may already exist in the outside money-market, and the real remedy for the difficulties complained of is in our opinion to avoid litigation by due care in electing members, by a proper discretion in granting loans, by pressing the sureties of a defaulter, and by consistent good management. For similar reasons we are not prepared to accord our support to certain other proposals to the effect that cases in which Co-operative Societies are concerned should be dealt with by the Revenue Courts, or that societies should be given special powers of distraint on the property of a defaulter. We think however that Civil Courts might be instructed in the absence of special reasons not to use their discretionary power to reduce the rates of interest charged on the loans of societies, but to decree a rate equivalent to a society's ordinary lending rate. In view, moreover, of the difficulties encountered by members in suits brought against them by outside parties we would suggest that in provinces where such information is not already contained in the High Court circulars or otherwise published, a resumé of the provisions of the law dealing with the recovery of agricultural debts might suitably be drawn up and supplied both to the Courts, and to all agricultural Co-operative Societies.

80. *Collection of dues by agencies outside the societies.*—We would in this connection enter a protest against the use made by societies of outside agencies to collect their dues on their behalf from members. We have frequently found societies turning to the Registrar and his staff for help against their members who are in arrears, and cases are not unknown in which a sympathetic Collector has been asked to lend assistance through his subordinate Revenue officers. In more than one province the auditing and supervising staff for a month or more after the ordinary date for annual repayments, is engaged almost exclusively in visiting societies and helping with the recovery of arrears. This is no part of the duty of the outside auditing and supervising staff whether paid by Government or by any other agency, and we think the practice should be discontinued. When recovery can only be effected by pressure, it should be applied by the members or the staff of a society itself, and in cases where it has been guilty of remissness in collecting its own dues, the society should be made to feel its corporate liability for the fault by having its credit restricted by its Central Bank. The outside auditing and supervising agency (whether connected with a Central Bank or not) is responsible for pointing out laxity or dishonesty in repayments, but it is in no way responsible for helping in the collection of dues. The primary society itself is wholly responsible for making its own members repay, and if it fails to secure punctuality, the result must in almost every case be attributed to the faulty constitution or management of the society.

The Reserve Fund

81. *Present situation.*—Under Section 33 of the Co-operative Societies Act, no registered society may divide profits except under such conditions as may be prescribed by rules or bye laws, and unless it puts one-fourth of its net profits to its reserve fund. The same section proceeds to lay down that no unlimited liability society shall make a division of profits without the general or special sanction of the Local Government; and under Section 43 of the Act, a Local Government may issue rules providing for the formation and maintenance of reserve funds, and the objects to which such funds may be applied, and the investment of any funds under the control of a society.

The rules which have been issued by Local Governments under these sections do little more than prescribe the formation and maintenance of reserve funds or enable societies to make bye laws in this respect, and the corresponding bye laws are in most provinces similarly incomplete. The bye laws usually require the reserve funds (except in the instalment-share societies of the Punjab, the United Provinces, and Burma) to be indivisible, that is to say, to be incapable of distribution as dividends or bonuses on shares. They also as a rule lay down that the reserve fund shall not be drawn upon without the sanction of the Registrar and when they touch on its investment, they ordinarily require that it shall be invested in such a manner as the Registrar prescribes, one province only giving express permission to use the reserve fund in the business of the society. No Local Government has defined the objects of the reserve fund in its rules, and the bye laws when they refer to the object of the fund describe it in various terms. Generally speaking it is regarded as intended to meet unforeseen losses and to serve as an asset of security in borrowings. In practice the Central Banks and limited liability societies are found as a rule to place only the statutory minimum of one-fourth of their net profits to the reserve fund, and to divide the rest in dividends, or allot it to special funds, while

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societies with unlimited liability pay no dividend and accumulate all the net profits in their reserve funds; there being, however, an exception in the case of the instalment-share societies prevalent in the Punjab, the United Provinces and Burma where dividends are payable after ten years. The amount of the reserve fund in the agricultural societies of the different provinces and its relation to the liabilities and outside borrowings of these societies, as shown by the latest available returns are indicated in the margin. In so far as bad debts are not written off in all cases so promptly as they might be, the figures for the reserve fund as representing surplus assets are somewhat misleading, since to this extent they cover a residuum of unrealizable debt which cannot in fact be regarded as a genuine asset.

Provinces 1	*Reserve Fund (in lakhs of rupees) 2	Percentage to total liabilities 3	Percentage of Reserve Fund *plus* profits of last completed year on outside capital including members' deposits 4
Madras	2.89	5.0	8.2
Bombay	1.45	4.8	8.4
Bengal	3.32	7.2	12.1
Bihar and Orissa	.88	6.5	13.0
United Provinces	2.37	4.5	8.4
Punjab	8.95	6.8	18.9
Burma	2.82	8.6	19.4
Central Provinces	.77	3.0	5.2
Assam	.40	13.3	21.3
Coorg	.15	15.0	49.5
British India ..	**24.00**	**5.9**	**12.0**

*Excluding profits for 1913-14 not yet allocated to reserve.

82. *Definition of "Reserve Fund" and "Fluid Resource" as employed in this Report.*—We are aware that authorities differ as to the exact meaning to be applied to the term "reserve fund" and that the treatment of this fund has led to numerous discussions in India during the last few years. Without entering into any discussion as to the correctness of the nomenclature, we may say that for the purposes of this report we propose to designate by the term "Reserve fund" in Central Banks that portion of the profit which has been definitely carried to reserve, whether it be the legal minimum of 25 per cent. or a larger amount, and in primary societies all indistributable surplus profits after payment of expenses, including as expenses in societies on the share system the portion of the profits to which shareholders are entitled. Similarly for the purposes

of this report we shall use the term " Fluid Resource " for those assets which are held in a liquid form, whether in cash or easily realizable outside investments, in order to meet the claims of depositors or to provide for financial needs in times of special scarcity.

Although the surplus assets are primarily intended to come into play in the event of liquidation, they constitute a most important element in the working capital, since they are the permanent and indivisible property of the society of which it has the use free of interest. The necessity of such a fund is recognised in the Act, which requires the whole of the net profits in the case of societies with unlimited liability to be credited to this reserve. The primary object of the provision of a fluid resource is entirely different. It is intended to ensure the ability of societies to meet their obligations to depositors. The need of such resource only arises in the case of primary societies when they take deposits, and have no other assured source of funds to meet the demands of depositors when they arise. Since at the present stage the deposits of non-members in primary societies are small, the question of fluid resource is not yet a serious one for such societies. We shall therefore discuss fluid resources fully in our treatment of Central Banks, and as regards primary societies would merely lay down here that those which take deposits and utilize these in their own business must themselves maintain fluid resource under conditions similar to those which we have suggested for Central Banks or must enter into arrangements with Central Banks under which the latter will provide this resource for them.

83. *Surplus assets or reserve fund proper.*—The Co-operative Societies Act as above noted, has clearly in view a Reserve Fund consisting of surplus assets, but there is a further point on which the Act itself is silent, and that is the manner in which the fund should be invested. We have found the practice of the different provinces in this respect to vary considerably. In some provinces the surplus assets are used in loans made by the societies to members; in some the surplus assets are placed in deposit with other co-operative institutions and are thus ultimately utilized in the same way; in others they are separately invested wholly or partly in outside securities; while in one Province they are invested in Government paper which is deposited with the Provincial Bank under an arrangement which makes the total of such Government paper available to the Provincial Bank as a pledge to support its own credit, and consequently that of the whole movement. In the case of the majority of primary societies we think that, assuming that they are secure in respect of their fluid resources, everything points to the desirability of a primary society using its surplus assets in loans to members. If we assume that a central bank and societies affiliated to it have jointly to keep a certain amount of money as fluid resource, then (except so far as three-fourths of the central banks' profits are liable to division in dividends and such outgoings are lost to the movement), it makes no practical difference to the movement *as a whole* whether the societies used their surplus assets in loans while the central bank provides the fluid resource or whether the societies pool their surplus assets with the central bank and allow it to use them for fluid resource. Whatever profit goes to the central bank is lost to the societies and *vice versa*. In deciding whether the profits should go to the central banks or to the primary societies, we should be guided by the fact that our object is to strengthen the financial and moral position of the latter and to treat the central societies as meeting the needs of the primary societies rather than *vice versa*. In this matter as in

all others we regard the benefit of the primary societies as the main object, the central banks and other such institutions being merely a machinery accessory to it. The object should be to free the primary societies as far as possible from recourse to their central banks and this can only be done by enabling them to build up their own capital sufficient for their needs. This can best be achieved by allowing primary societies to use their accumulated net profits or surplus assets in loans to members, on which they get high rates of interest compared with the rates received on Government paper.

84. *Building up of reserve fund.*—In brief, therefore, a primary society is concerned with the Reserve Fund mainly in the form of surplus assets, and so long as proper provision is made for the necessary fluid resource, these surplus assets may properly be employed in the business of the society. The object of a society should be to accumulate a Reserve Fund of this character until it obtains a capital of its own sufficient to meet all its needs, and thus becomes independent of outside assistance. Until this stage is reached, the margins on which it works should be as large as is compatible with the successful maintenance of the society, and it is only when this stage is reached that any reductions (other than those essential to meet outside competition) should be effected in the rates of interest charged by the society on its loans to its members.

Division of Profits

85. *Use of profits for charitable purposes.*—Under the Act co-operative societies may, with the sanction of the Registrar, after carrying one-fourth of the net profits to a reserve fund, devote an amount not exceeding 10 per cent. of the remainder to any charitable purpose as defined in the Charitable Endowments Act. We find that an increasing number of societies are availing themselves of this provision either by allotting sums for specific charitable objects at the end of each year, or by carrying the whole of the permitted percentage to a common good fund for use when occasion may arise. The objects chosen are extremely various, but we see no reason to restrict the wide discretion left to societies under the Act. Even in cases where it might be financially sounder to place such sums to the reserve, there are sometimes advantages in applying them to objects of a philanthropic or sentimental character, as, apart from the objects directly attained, action of this kind serves to arouse interest in the movement.

In this connection we may mention a practice, which has been initiated in some Provinces, of entrusting certain administrative duties to co-operative societies in their corporate capacity with or without a grant of money. The class of work thus entrusted to societies—such as sanitation, education, or village improvement—if honestly carried out, must ordinarily entail some local unpopularity, and we think great caution should be observed in employing societies on such duties, except where they apply for such employment of their own free will and initiative, and where the society represents practically the whole of a village; as it is important to avoid connecting the co-operative movement with duties imposed from outside which, however beneficent, are opposed to village sentiment. Action within the movement itself, as when Central Banks encourage such measures by offering more favourable terms to societies which show themselves progressive and keen for self-improvement, is less open to objection.

Dissolution and Liquidation of Societies

86. *Dissolution of Societies.*—The Registrar is invested under the Co-operative Societies Act with a fairly wide power to dissolve and wind up societies at his discretion, and the power has in some provinces been freely used to get rid of societies which offer little or no hope of a useful career. The causes put forward for the failure of societies are very various and include a want of due supervision, indiscreet loans, contumacy of borrowers, unpunctuality in repayments, the restriction of loans to a few individuals, dishonesty or incompetence of society officials, bad selection of members, the extension of a society over too large an area, concealment of old debts, faulty constitution, internal dissensions, insufficient funds or membership, the preponderating influence of one member, and general lack of interest by members in the affairs of the society. In some cases the dissolution of a society is not an indication of anything in the shape of laxity or peculation, but is due mainly to the necessity of allowing its construction to be altered so as to admit of its being split up into several societies, or combined with others into a new society. In the early days of the movement when officers were inexperienced and when experiments were made in uncongenial soil, there was a tendency to form societies which should never have come into existence. Even where the original faults are now avoided, we have frequently found the survival of old societies which showed no signs of life and which should long ago have been dissolved. It is sometimes advisable to give an unpromising society a little time to see if it will recover, but as a rule a society which shows little hope of life should be dissolved. As regards established societies, we would not lay down any fixed rule prescribing the precise stage at which dissolution should be effected, but we think that when it is clear that there is no hope of eventual solvency or progress, the Registrar should proceed at once to dissolve the society. The tendency in many Provinces has been to deal somewhat too tenderly with hopeless cases, and our view is that prompt action must be taken as soon as a society is shown to be inert or insolvent.

Province	Number of societies which up to date have been	
	Dissolved	Dissolved and liquidated
Madras	1	8
Bombay	46	56
Bengal	80	14
Bihar and Orissa	15	160
United Provinces	26	124
Punjab	159	53
Burma	67	13
Central Provinces	112	1
Assam	3	7
Coorg	..	..
Ajmer	..	..
British India	509	436

87. *Liquidation—Summary procedure.*—The hesitation with which some Registrars approach the dissolution of societies is to some extent justified by the existing arrangements for liquidation. It is always open to a Registrar on dissolving a society to arrange if possible for a voluntary winding up, but when this is not feasible, he must have recourse to liquidation under Section 42 of the Act. The provisions of the law on the liquidation procedure are rightly of a simple character, but rules can be made to supplement the Act, and in some Provinces—as for instance in Bengal—circulars have been issued which contain excellent instructions on the details of the business. The work is of a troublesome character but its difficulties have not yet become sufficiently marked to call for any radical alterations in the law. It is only in respect of the collection and distribution of the assets under the orders of the liquidator that any great complaint is made. Such orders must under the law be enforced by the Civil Courts, and Registrars have felt that the delays and difficulties of the ordinary Civil Court procedure in execution tend to give so much encouragement to recalcitrant societies as to endanger the success of the movement in any area where this procedure has been utilized. In Bihar and Orissa special provision has been made in the recent Public Demands Recoveries Act under which the liquidator's orders may be executed by the Collector in the same manner as an order for the collection of arrears of Government revenue. We do not think that the objections which exist in respect of the application of such a process to the recovery of loans by societies from their members hold good in dealing with the recovery of assets in liquidation, and we recommend that when the Act is revised provision should be made for summary recovery in such cases. It has been urged that in justice to outside creditors the orders of the liquidator should also apply to such debts as he may find to be due to these creditors, but on the whole we consider that, if provision is made to safeguard the rights of such outside creditors, as have already obtained decrees, they will be sufficiently protected against anything in the shape of preferential treatment of the society.

We may in this connection note that we have come across no instance in which the liquidation of a society has caused loss of any kind to the outside public. We believe that no such loss has occurred and, if due care is taken in the management of societies in future, it seems exceedingly unlikely that the failure of any society will be attended by ultimate loss to those who have deposited their money with it.

Audit and Supervision

88. *Importance of Audit and Supervision.*—It is important to recognise that societies are chiefly composed of uneducated members, that the problems which confront them are not always easy, and that the handling of money involves certain temptations. These conditions call for certain precautions, the enforcement of which requires much hard and uninteresting work. To ensure successful management nothing is more important than constant and vigilant scrutiny of the accounts and examinations of the

general management through the agency both of the Registrar's staff and of the co-operative institutions themselves. The value of such inspections, regarded as they are for the most part as routine work and showing no immediate or striking results, often escapes notice, but they play an essential part in the co-operative scheme, and failures are largely due to their inefficiency or absence.

89. *The terms 'Audit' and 'Supervision'*.—Section 17 of the Act prescribes that every society shall be audited at least once a year by the Registrar or some person authorised by him. An 'enquiry' or 'inspection' under certain special circumstances is provided for in sections 35 and 36 of the Act, but on the subject of continuous supervision no legislative provision is requisite nor has any been made. The efficiency of co-operative institutions depends very largely on the arrangements made with respect to the two important safeguards provided by (i) periodical audit, and (ii) continuous supervision, and we shall explain below the significance we impute to these terms. In the meantime we may note that it would be a great convenience if the English designations of the staff employed in the various provinces which are now very diverse and confusing, could be so far unified as to allow of the term 'auditor' and its derivatives being applied to all staff exclusively or chiefly engaged in audit work (auditors employed by Government being termed 'Government Auditors') and the term 'supervisor' and its derivatives to all staff engaged chiefly or exclusively in supervision.

The expressions 'inspection' and 'enquiry' should, we think, be utilized exclusively for the special and occasional operations contemplated by sections 35 and 36 of the Act.

90. *The Controlling Staff*.—Both audit and supervision are carried on under the ultimate control of the Registrar, and it rests with him not to confine himself merely to the obligatory duties imposed by the Act but also to watch and regulate the whole efficiency of the movement. For this purpose he is usually provided with one or more Joint or Assistant Registrars drawn from the Indian Civil or Provincial Civil Service, and in the major provinces the present number of the permanent controlling staff is as shown below. We shall speak later of the general position of the Registrar and other connected questions, but here we may note our opinion that to enable the work to be carried on efficiently a minimum of two controlling officers with the qualifications which we consider indispensable for the post of Registrar is required in all the major provinces. In fixing a standard for the numbers of the controlling staff, due attention should be paid to such considerations as the area of the province, the state of its communications, the average size of societies, their geographical distribution, and the volume of work done by them, but subject to these general conditions, we should ordinarily expect that, if no outside duties are imposed on the Registrar and his staff, and apart from any increases that the above mentioned considerations may entail, there should in every major province be one Registrar or Joint Registrar for every thousand, or fraction of a thousand societies, and we consider that the charge of a Registrar

or Joint Registrar should be regarded as equivalent to the charge of a district in importance. It is possible that, as the movement progresses and consolidates, the proportion of controlling staff to societies may require alteration but it is for Government to realize that inability to cope with suitable applications for registration, owing to shortness of superior staff will in most provinces assuredly entail a large and unregulated growth of unregistered societies. The Registrar and his Joint Registrars should be provided with such assistance as may be found necessary from the cadre of Assistant Collectors or of the Provincial Civil Service, the assisting officers being designated Assistant Registrars. This staff would of course not include Assistant Collectors seconded to the Department for a course of training. In special cases where new developments in the direction of non-agricultural or non-credit co-operation are taking place, involving constant thought and attention, a larger number of controlling officers would be needed, for it should be remembered that much of the inefficiency of the past has been due to the excessive work that Registrars have had to do. On the question whether these posts should usually be filled from the Provincial or the Indian Civil Service we would not suggest laying down any general rule. But we would point out that it is very advisable that all officers on the controlling staff should be capable of thoroughly mastering and digesting the standard books and periodicals on co-operation without relying on second-hand information with regard to European conditions, and we would lay stress on the necessity of a more thorough study by the controlling staff of the theory and practice of co-operation in all parts of the world than has been common heretofore. There are so many cases in which the controlling staff have to decide on the course most consistent with co-operative principles, that it is most desirable that they should all be steeped in the literature of the subject, and should even, if possible, have gained some personal experience of it in Europe.

Provinces	Number of Societies and banks	Controlling Staff		
		Registrars and Joint Registrars	Others	
			From Indian Civil Service or Commission	From Provincial Civil Service
1	2	3	4	5
Madras	1,338	1	..	3
Bombay	715	1	..	..
Bengal	1,667	1	..	1
Bihar and Orissa	819	1	..	1
United Provinces	2,800	1	..	2
Punjab	3,333	1	1	1
Burma	1,359	2	..	..
Central Provinces	2,213	1	1	1
Total ..	14,244	9	2	9

As regards the clerical establishment of the Registrar and his Assistants, all we desire to say is that every effort should be made to maintain it at a proper standard both as regards numbers and efficiency. The figures below show the numbers of the staff at present maintained.

Province	Clerical staff of Registrar and Controlling staff
Madras	27
Bombay	7
Bengal	9
Bihar and Orissa	5
United Provinces	7
Punjab	5
Burma	9
Central Provinces	8

91. *The meaning of audit.*—The terms of the Act expressly require that the audit shall include an examination of overdue debts and a valuation of assets and liabilities. By this latter we understand not merely the preparation of the balance sheets of societies but also a sufficient check, in accordance with such rules as the Registrar may lay down, of the list of the material assets of the members. The audit should in our opinion extend somewhat beyond the bare requirements of the Act, and should embrace an enquiry into all the circumstances which determine the general position of a society. It would for instance be the duty of the auditor to notice any instances in which the Act, Rules, or bye laws have been infringed; to verify the cash balance and certify the correctness of the accounts; to ascertain that loans are made fairly, for proper periods and objects, and on adequate security; to examine repayments in order to check book adjustments or improper extensions; and generally to see that the society is working on sound lines and that the Committee, the officers, and the ordinary members, understand their duties and responsibilities.

92. *Audit to be under Government Control.*—It is clear that an audit in this sense entails a much more comprehensive enquiry than is usually made in the case of Joint Stock Banks, and the reason of this is that in the two cases the objects of the audit are entirely different. In Joint Stock Banks auditors are appointed by the shareholders to carry out an independent investigation into the Company's affairs and to report the results to them for their own satisfaction. In the case of primary co-operative societies in India at the present stage the audit is intended in the first instance to assure Government, through whose agency the societies were formed, that they are developing on sound lines, and only secondarily for the satisfaction of Central Banks or outside investors, who have entrusted money to the movement, and of the society members themselves. The audit is in fact a State-controlled audit and it appears to us that this view is implied in the clause of the Act which imposes the duty of making an audit on the Registrar and his nominees. It is through audit alone that an effective control can be exercised over the movement, and it is clear that it was never intended that the audit should be merely an arithmetical one and that the Registrar's activities outside that audit should be confined to the inspections or enquiries mentioned in sections

35 and 36 of the Act. The auditing staff, from whatever source they may be paid, are in our opinion responsible to the Registrar and must be mainly controlled by him. Their reports are intended primarily for his information. The objections that thave been advanced against a Government audit in Germany are firstly that the staff is appointed by an outside non-co-operative judicial authority and consists of minor officials who audit the accounts as a matter of routine without practical experience of co-operative work or enthusiasm for its objects, and secondly that such a staff has no means of ensuring that the societies, after certifying the completion of the audit to the Court, do not file the audit report without taking any action upon it. These objections do not apply in India. As we shall show below, there are means of making an audit by a Government staff efficacious, and the men employed, whether paid by the societies or by Government, are expert co-operators who are under the guidance of co-operators and whose prospects depend on their good work. The audit moreover will always in India be carried out on the spot, and the visions which have been sometimes conjured up of a headquarters office of clerks and accountants harassing societies with a stream of petty technical objections, are entirely baseless. It seems therefore to us unobjectionable in principle that audit should be carried out under State control, and we consider that at the present stage this is the only arrangement under which the purposes of the Act can be secured.

93. *Two classes of Auditors—Government Auditors.*—When we speak of an audit under Government control, we do not intend that the entire staff should be Government servants. On the contrary we think that the auditing staff may rightly be divided into two sections, (*a*) a staff maintained by Government for super-audit, and (*b*) a staff maintained by co-operative institutions for original audit.

We have termed the audit, required from the Government staff, a "super-audit", and by this we mean not the mere testing of a previous audit by a percentage check, but a separate and complete audit made at longer intervals than the original annual audit. The staff should be permanent and pensionable, and its pay should commence at a figure not lower than that of a sub-deputy Collector and rise by periodic increments. If it is found convenient, it may properly be recruited wholly or in part by the deputation of Government servants from the Revenue or other Departments, but usually we anticipate that a separate staff of permanent auditors can be formed, and that the best men in this staff will often be those who have gained experience in the service of societies. We do not contemplate that the auditors of primary societies should ordinarily be given any clerical staff at all, and look to them to carry out audits personally and without the assistance of a clerk.

In our opinion, an officer whose duties are confined to the audit described above and who has to deal with well-constituted societies in good order, can, unless the membership is exceptionally large or communications specially difficult, carry out the audit of about 100 societies in a year, and the Government officer in charge of the super-audit should be able to visit very much the same number of societies. The super-audit should at first take the form of an audit of every society once every two years, but after a period of 4 or 5 years, as the societies' staff becomes more equal to its auditing duties, the interval might be enlarged to 3 years, and perhaps still larger intervals might be permitted in the more distant future. In other words we would have approximately

one Government auditor for every 200 societies, and after a few years would contemplate one to every 300 societies, with possibly further subsequent extensions. The degree in which these recommendations would affect existing arrangements may be gathered roughly from the details given below, but as different provinces use their staff in different ways and refer to them under various designations, the circumstances of each would need special investigation. We would note that there are advantages in making the charges of auditors conterminous with one or more districts, and where the number of societies makes it feasible, in placing a single district or definite administrative area under one Government auditor. We may further add that though the Government auditor should not ordinarily be entrusted with educational or propagandist work, yet he may sometimes be called upon to guide and assist new developments. To prevent routine habits and staleness provision should be made for a suitable recess, and occasionally special work of an interesting character may be assigned to him. If however such duties are frequently entrusted to him or if he is placed in charge of an appreciable number of societies of a special character, such as societies for insurance, purchase and sale, etc., then the average number of societies that he could be expected to audit should be materially modified.

Province.	Number of Societies and banks	Number of Government Auditing Staff (Permanent and Temporary)
Madras	1,338	60
Bombay	715	8
Bengal	1,667	18
Bihar and Orissa..	819	11
United Provinces	2,800	12
Punjab	3,333	19
Burma	1,359	12
Central Provinces	2,213	23
Assam	249	5
Coorg	31	*Nil*
Ajmer	357	2
Total British India ..	**14,881**	**170**

94. *Non-Government Audit.*—As above stated, the original audit of primary societies should in our opinion be carried out by a staff maintained by co-operative institutions themselves. We deprecate the creation of a new Government department on a large scale to carry out audit, both because it is undesirable to let loose in increasing numbers a new set of Government officials on the villages, and because the officialization of the work might breed a sense of hostility towards audit generally on the part of the societies. The staff would indeed be empowered by the Registrar under the Act to undertake audit work and would remain under his ultimate control; but the appointment, transfer, and dismissal of all auditors should as far as possible be made in accordance with the recommendations of co-operative institutions, and the pay of the staff should

be provided by the movement and not by Government. When the Government already finances this staff in whole or in part, its aid may be withdrawn gradually. As long as the pay offered is adequate and the staff such as the Registrar can really rely on, we would leave it to each province to decide in what manner the various Central Banks, Unions, and Societies should combine to entertain the auditors required. A common stumbling-block, however, in the case of small and local establishments, is the stagnation of promotion and want to prospects, and this can only be avoided by the formation of an audit Union, for the whole province, such as has been started in the Central Provinces, by means of which the auditing staff is brought into one cadre under the control of the Registrar. Where this or some similar system is adopted, the cost of its maintenance can be met either (*a*) by a levy *per capita* on all the members of primary societies or (*b*) by the distribution of the cost over societies and central banks on the basis of working capital or (*c*) by a similar distribution on the basis of net profits or (*d*) by a corresponding rise in the rate of interest. In whatever way the money is raised, the system of an audit Union on the lines suggested is one capable of development as time goes on. As societies prove themselves fit to take affairs more and more into their own hands, the degree of control exercised by the Registrar over the non-Governmental staff can gradually be relaxed until ultimately the entire work of making the original audit devolves on the societies themselves whose representatives would then be able not only to receive the audit reports but also to take action on them. That time however is still distant.

95. *Qualifications of Staff.*—It is scarcely practicable to require any special educational qualifications in the staff, whether maintained by Government, or the co-operative institutions, but it may be found in time advisable to recruit for some or all of the posts from among men who hold a certificate as required under section 144 of the Indian Companies Act. Also in time it may be convenient to open classes for the training of auditors or supervisors, but we do not think that at the present stage any better training can be found than practical experience under the guidance of the existing staff. The nature and period of this practical training are matters on which the Local Governments and their Registrars are in the best position to form an opinion.

96. *Reports of Auditors and action taken thereon.*—The auditor, whether employed by Government or the co-operative institutions, must record and report to his controlling officer the results of his audit and we regret to note that in some parts of the country this is done in a most perfunctory way, a few lines in the society's minute book being sometimes considered sufficient. The Registrar should prescribe a form of report giving, in sufficient but not in too minute detail, the points on which enquiry should be made. We would deprecate, however, the practice that obtains in some places of making use of such a form as a means of collecting elaborate statistics rather than of testing the real condition of the societies. It will be for the Registrar to determine what degree of checking is required in each case, but we may note that in most agricultural primary societies there should be no difficulty in requiring an absolutely complete check of all entries in the Account Books. A copy of the auditor's report should be supplied on the spot to the society in its own vernacular and should be treated as open to public inspection. The report itself should be seen both by the financing or controlling agency, whether it be a Central Bank or a Union, and by the Registrar, and it will usually be found most convenient to send it to the Registrar through the financing or

controlling agency which may record on it or report any action which it has taken or proposes to take. The defect of ineffective audit, from which the movement has suffered in some cases in Europe, will thus be avoided, as the financing agency will be able on its own motion or on that of the Registrar to insist that steps shall be taken to remedy faults on pain of the withdrawal of its financial support; and in extreme cases the Registrar has of course power to dissolve or wind up recalcitrant or hopeless societies.

We may add that the personal responsibility attaching to auditors under the Co-operative Societies Act for the correctness of their reports is, as far as we are aware, the same as that attaching to auditors of commercial concerns under the ordinary Civil Law, and we do not advocate any special treatment for the auditors of co-operative societies.

97. *Audit of limited liability Non-Credit Societies.*—The above recommendations refer primarily to agricultural credit societies with unlimited liability. In the case of non-agricultural primary societies or agricultural credit or non-credit societies with limited liability, we would leave it to be decided locally whether such societies should be admitted to membership in the Audit Union or not. In some cases, such as the larger urban banks and distributive or insurance societies, the work of audit may be so much more intricate and expensive than in ordinary cases, that the Registrar might make special arrangements for the audit and the recovery of its cost either through the Union or otherwise. There are on the other hand special cases, such as the audit of societies with unlimited liability among a low-caste population, where Government would be justified in contributing to the cost of audit as a temporary and eleemosynary measure.

98. *Supervision to be entrusted to the Societies.*—The work of "supervision" covers many of the points which have already been included in audit, but in addition it implies the duty of instructing the members in co-operative principles and the propagation of the movement by the organization of new societies. Even where it covers the same ground as audit, however, it differs from it in that it aims not merely at testing the efficiency of a society but at helping it to be efficient and it comprehends the further task of seeing that the defects noted at audit have been remedied. The supervisor is concerned to see that the work of the society is not only business-like and up-to-date but genuinely co-operative. While satisfying himself that the accounts are in good order and that business is being conducted regularly and prudently, he would refrain from verifying the figures in detail, and would set himself to test the knowledge of the Committee and members, to advise them with regard to difficulties and disputes, to explain and remedy mistakes, and to impress upon them the principles which societies should always have before them. These functions should in our opinion rightly devolve on the co-operative institutions themselves, and, as shown below, they are already in some measure being discharged by them. The supervising staff is organized in different ways in different provinces. In the Central Provinces, for instance, it is included along with the auditing staff in a single cadre and employed by a Provincial Union into which Central Banks have combined for this purpose, and a similar Federation has been projected in Bihar and Orissa. In Burma groups of Local Unions whose areas adjoin each other contribute to maintain jointly, an itinerant supervisor, and in addition each of the 90 Unions employs a separate paid Secretary whose duty it is to teach and train the members of affiliated societies. In the remaining provinces it may be said generally that the supervising staff is appointed and mainly controlled by the Directors of Central

or District Banks for the benefit of their affiliated societies, or by Unions in districts where they exist.

Provinces	Number of Societies	Supervising staff entertained by Co-operative Institutions	
		Number	Monthly cost
1	2	3	4
			Rs.
Madras	1,338	15	600
Bombay	715	4	160
Bengal	1,667	30	1,260
Bihar and Orissa	819	15	720
United Provinces	2,800	128	6,080
Punjab	3,333	29	1,220
Burma	1,359	13	520
Central Provinces	2,213	34	1,480
Assam	249	2	80
Coorg	31	*Nil*	..
Ajmer	357	4	100
British India ..	14,881	274	12,280

In whatever way the staff is organised it is for the societies or their Unions or Central Banks to see that a sufficient and efficient staff is maintained to carry out their duties, and the Registrar, though watching through the auditing staff how far societies do really attain to efficiency and thereby keeping a check on supervisional work, should not himself unnecessarily interfere with it. For supervision the strength of the staff will depend on local conditions and on the extent to which honorary workers are available. The staff will not be under the orders of the Registrar or his auditors, and its reports will be submitted to the body which maintains it, and will not necessarily go on to the Registrar. It will be for that body to decide how the work should be carried out and whether supervisors should, like auditors, be required to submit their reports in a definite specified form. In its teaching and propaganda work the supervising agency should, we consider, be guided by the principles which have been indicated by us in paragraphs 30 and 39 above.

Accounts and Returns

99. The submission of accounts and returns by societies is governed by rules under Section 43 of the Co-operative Societies Act, and it has usually been found possible to obtain such returns with punctuality. The returns are in some cases prepared by the

secretaries of the societies themselves, but where these officials are too ignorant or inexperienced, they have received help from the auditing or supervising staff. The form of the returns to be prepared by societies depends mainly on the manner in which statistical information has, under the orders of the Government of India, to be supplied by Registrars to the public in their Annual Administration Reports. Orders on this point were issued by the Government of India on the recommendations of the first Conference of Registrars in 1906 when they prescribed the publication of information by districts showing the total figures for societies in the form of (*a*) a Receipt and Disbursement Statement, (*b*) a Profit and Loss Statement, and (*c*) a Balance Sheet. The form of the returns was after consultation with the Conference of Registrars held in 1912, amended in 1913 in order to meet the conditions of the new Act, and to supply certain information needed by the International Institute of Agriculture in Rome. We find, however, that there is some dissatisfaction regarding these returns on the part of Registrars, some of whom consider that they are too elaborate for primary societies and point out that in any case these financial returns are of little value when prescribed in the form of Provincial totals. We have also found that for about a month before the returns are due, the staff of societies, and in many cases the auditing and supervising staff also, is so occupied in their preparation that current work, even when of an urgent character, has often to be entirely neglected. Similarly, on the receipt of the returns by the Registrar's office, his clerical staff has to devote an undue amount of time to computing, checking, and seeing through the press an enormous mass of statistical matter which is not really required.

We have carefully considered the questions raised and we have submitted separately to the Government of India a letter containing proposals for a fresh revision of the annual returns. We recognize that in proposing a fresh series of returns we are causing considerable, though temporary, inconvenience to societies and to Registrars, but we hold it to be of some importance to utilize the opportunity which has presented itself of placing these returns on a proper footing, and we believe that so far as the offices of Registrars are concerned the changes proposed will lead to an appreciable reduction of work, while the information presented to the public will be published in a form much more suitable for assimilation. We have based our proposals on three main principles. In the first place we have maintained the view that each society should prepare the three financial statements above mentioned, as we consider that without this societies can never be expected to develop the requisite business capacity for keeping their own accounts. In the second place, while expecting societies to prepare these statements themselves, we recognise that they have not always the requisite capacity for this task, and we would therefore accept returns prepared by the auditing staff, but in view of the inconvenience caused by the present system of preparing all returns immediately after the close of the co-operative year we have suggested that in the cases where the returns are not prepared by societies themselves the accounts prepared at the last audit during the year should be accepted in their stead. It can no doubt be urged that this plan vitiates to some extent the conclusions drawn from the statistics as regards the progress of the movement, but we believe that it will have this effect to a small extent only, and that as time progresses this disturbing element will disappear. Then, in the third place, we have suggested that, while the returns for central societies should be exhibited in the form of the three prescribed financial statements, the data for primary societies should be

shown in one statement only which exhibits in a statistical form the outstanding features on which information is required. By this curtailment of the published data for primary societies the amount of compilation and check now required from the clerical staff in the offices of Registrars will be reduced and the statements appended to the Annual Reports will be greatly simplified.

CHAPTER III

CENTRAL BANKS

100. *Federated financing agencies.*—As has been noted above, the original scheme for co-operation in India did not contemplate the federation of societies into central financing agencies. It was of course recognised that agricultural societies could not be expected in all cases to raise their own funds, but it was anticipated, in accordance with a plan promulgated by Mr. Dupernex, that the Urban Banks would be able to raise sufficient capital to meet both their own needs and those of the rural societies. Under these arrangements certain of the larger Urban Banks in various provinces gradually assumed the position of central financing agencies, and these were followed—especially after the passing of the Act of 1912—by other Central Banks in many of which the agricultural societies were themselves in some way represented. In some cases Central Banks have been established which serve the bulk of the societies in a province, and deal with the societies either directly or through the medium of guaranteeing unions of societies. In others the Central Banks serve smaller areas, such as a district or part of a district, and, when themselves in want of funds, have recourse either to each other or to Joint Stock Banks or to a Provincial Co-operative Bank established for the purpose,—a subject with which we shall deal in the next Chapter.

In Madras, the Madras Central Urban Bank has financed a large number of primary societies in outlying districts. In Bombay, there are three Central Banks working in areas not greater than a district, but by far the greater portion of the work of financing the primary societies in the Presidency is performed by the Bombay Central Bank. In Burma, two local Central Banks have been established, but here too the greater portion of the societies are financed directly by the Upper Burma Central Bank. With these exceptions all the primary societies throughout India are financed by Central Banks established to do business in an area equal to a district or part of a district. For reasons which we shall explain in the next chapter we have deemed it suitable to exclude from consideration here the Central Banks of Madras and Bombay and the Upper Burma Central Bank, and to deal with them in the next chapter along with the Provincial or apex banks recently founded in Bihar and the Central Provinces. This chapter will therefore be confined to those Central Banks intended to finance primary societies within a single district or part of a district and it will be understood that it is to banks of this class only that we refer in using the term "Central Banks."

101. *Guaranteeing Unions.*—Before dealing with Central Banks of this class, we desire to refer to the system of guaranteeing unions which in some provinces form the link between the financing agency and the primary societies. The number of such unions shown in the returns for each province is as noted below. In Madras, the constitution of unions has varied at different times and those latterly established entail no guarantee for loans given to the societies of the unions. The unions in Bengal and Assam are intended to follow generally the Burma model, and somewhat similar unions are contemplated in

Bihar and Orissa. It is in Burma that the system of guaranteeing unions had its origin, and as will be seen from the figures above quoted it is in that province that the system has had its greatest development. The Burma union as a rule consists of 5 to 35 societies and is managed by a general meeting on which all the societies are represented. The union is registered as a society with limited liability and mutual guarantee is effected by a rule that each constituent society shall be liable for any default by a society in the repayment of a loan recommended by the union to the extent of the maximum amount of its borrowings from non-members in the twelve months preceding a call. As noted in paragraph 98 above, the unions employ a paid Secretary and the decentralization of supervisional work thus secured is in our opinion very valuable.

Province	No. of unions
Madras	4
Bengal	7
Burma	90
Assam	2

The logical basis for the reliance placed by a Central Bank on the assessment of credit made by a union is of course the fact that such unions are groups of societies which themselves hold shares in Central Banks. Although societies might be federated for purposes of mutual supervision and the assessment of credit, little confidence could be placed in such assessment and still less in the action taken for the recovery of loans, unless the federated societies were themselves pecuniarily interested in the amount and character of the loans. It has been found at the same time that the grant of loans to individual societies is expedited and their credit enhanced by a system of mutual guarantee and supervision, which has been found to work excellently in the province where it had its origin. This system has been impugned on the ground that a union should not meddle in banking business, and that the mutual guarantee involved an interlocking of liability which leads to confusion. We think however that there may be some misapprehension in this criticism, as the guaranteeing union established in this country is not a banking body which borrows on the ultimate liability of its constituent societies in addition to their own borrowings, but merely a guaranteeing agency which leaves the ultimate liability of the societies unimpaired. It is true that this form of federation has not been instituted so far as we are aware in any European country, but the absence of guaranteeing unions in Europe may be due partly to greater distrust between adjacent villages and partly to the want in Europe of any proper method of enforcing the recommendations of co-operative unions. One of the crucial problems in India is the vast size of the country and without some method of increasing the size of the individual unit with which the controlling agency has to deal and at the same time of arranging for that unit to undertake work which would otherwise fall on a paid staff, the task of adequate supervision is rendered extremely difficult. We consider the system as established in Burma to be feasible and full of promise. We should be glad to see a system of this nature tried in other provinces and we look on this as one of our most important recommendations. The societies in all provinces should gradually be brought together into unions for the purpose of mutual supervision and for the assessment of credit and recovery of loans, and unless experience elsewhere should belie the results obtained in

Burma, it will be in our opinion a great accession of strength to the movement if these unions undertake some kind of guarantee after the Burma model. It is not indeed necessary that the guarantee should, in every case, entail a complete liability, and it is possible to arrange that the union should guarantee one-half or some other fraction, especially in cases when it is dealing with a bank of a class which must undertake responsibility for the assessment of credit. But a guaranteeing union of some kind is, in our opinion, advisable where the financing agency is a Central Bank, and essential in cases where a Bank dealing with a whole province attempts to deal with societies without the intervention of a Central Bank.

102. *Functions of Central Banks: Contrasted with Joint Stock Banks.*—Turning to the Central Banks we would draw attention to the double function which they perform of (*a*) balancing the funds of societies and (*b*) supplying capital. Up to a certain point the former function can be performed by the Registrar, and the latter by Joint Stock Banks: but a time soon comes when a Central Bank of some kind has to be substituted for these agencies. As the number of societies increases, the work of balancing funds becomes greater than can suitably be entrusted to an officer such as a Registrar who has so many other duties to perform. For the supply of money it was not uncommon in the earlier stages of co-operation in India, for societies to apply direct to Joint Stock Banks, and the practice is not unknown even now. But as a general rule a Joint Stock Bank, however anxious to help, is not the best agency for the supply of capital to primary co-operative societies. The ordinary Joint Stock Bank deals with tangible securities only and finds it difficult to appreciate the 'imponderable' factor in co-operative security, even when combined with unlimited liability. It is accustomed also to dealing with short loans as understood by commercial circles, namely loans of 2 or 3 months, and looks for a far more rapid turnover than can be afforded by the class of loans needed by members of agricultural credit societies. It could not be placed under any direct control on the part of the Registrar, nor would it be fitted to exercise the necessary control over the societies, and it would scarcely be prepared to lock up in the movement the amount of capital which the proper financing of societies would demand. It has therefore been found advisable in India as elsewhere to establish the class of bank represented by Central Banks and to maintain them under co-operative control, which will appreciate the special conditions under which co-operation works and act in sympathy with those conditions.

103. *Contrasted with European conditions.*—On the establishment of these Central Banks they were entrusted with the two functions above alluded to, namely of balancing funds and of supplying credit.

There is however a marked difference in the respective importance of these two functions in India and in most European countries. In the latter the chief function of the Central Bank is to take over money where and when it is plentiful and to distribute it where and when it is lacking: in the former, its chief function is to supply capital drawn from outside the movement to societies. The percentage of capital borrowed from Co-operative Institutions by primary societies of all sorts in India is 53 per cent. as against 8 per cent. in Germany, and the Central Bank fulfils a more important and a more difficult role in India than in most European countries. The sphere of operations is also somewhat different, because a Central Bank in India is usually formed for a district or

part of a district, and although the number of affiliated societies will, as the movement extends, reach a considerably larger figure, a Central Bank in India serves at present on an average some 40 to 50 societies only, while the Central Banks in Germany are formed for a Province or State and serve on an average some 500 societies. On the other hand, the extensive areas of our districts and the deficiencies in our communications are factors which to some degree assimilate the management of an average Indian Central Bank to that of the institutions of the same name in Germany, and as time goes on the number of societies affiliated to them will also tend to approach nearer to that of the societies affiliated to the German Central Banks.

104. *Distribution of Central Banks.*—The Central Banks of all kinds now existing in India, are distributed over the various Provinces in the manner shown below, and an abstract of their organisation will be found included in Appendix I of our Report. We shall note in the next Chapter of the Report our reasons for holding that in all the major Provinces it will be advisable for these banks to be co-ordinated under a Provincial Bank (that is an apex bank for the whole province), and our remarks on Central Banks are made generally on the presumption that this further link will when necessary be supplied. The soundness and success of Central Banks are based on the same factors as we have shown to lie at the basis of the soundness and success of primary societies and we propose to deal with Central Banks under the same three heads, namely (*a*) their constitution and management, (*b*) the manner in which their capital is composed and employed, and (*c*) the efficiency with which they are audited and supervised.

Madras	7
Bombay	3
Bengal	33
Bihar and Orissa	12
United Provinces	55
Punjab	38
Burma	2
Central Provinces	28
Assam	6
Ajmer	5
Total British India	**189**

Constitution and Management

105. *Three classes of Banks: Banks with Individual shareholders only.*—Central Banks in India may be classified according to their constitution under three heads (1) banks of which the membership is confined to individuals, (2) banks of which the membership is confined to societies, (3) banks which include both individuals and societies among

their members. The numbers of Central Banks falling under each of these heads are approximately as shown below.

	Class 1	Class 2	Class 3
Madras	4	..	3
Bombay	..	1	2
Bengal	3	6	24
Bihar and Orissa	..	1	11
United Provinces	..	14	41
Punjab	12	20	6
Burma	..	..	2
Central Provinces	..	..	28
Assam	2	..	4
Ajmer	..	..	5
Total ..	**21**	**42**	**126**

The first class includes any bank in which the shareholders consist entirely of individuals or in which societies are admitted as shareholders on exactly the same footing as individuals, without any special provision for securing their representation on the Committee or for reserving a definite portion of the share capital for them. A bank of this class stands in much the same position as a joint stock bank, and in deciding whether such a bank should be admitted to registration under the Co-operative Societies Act, Registrars should, we think, be guided by the consideration whether the bank proposes to grant loans to any persons or institutions besides registered co-operative societies, and whether it intends to undertake any outside banking business not immediately connected with co-operative finance. In either of these cases the bank should not be registered, because its existence will only cause friction both with the societies which it is intended to serve and with the joint stock banks with which it may enter into competition, and its work would not be of the kind contemplated by the terms of the Co-operative Societies Act. There are now practically no Central Banks which undertake outside business and comparatively few which lend to individuals, but in our opinion the time has come when steps should be taken to bring to a close in all cases the practice of granting any loans except to registered societies. If these conditions are complied with, we would not recommend the absolute prohibition of the use of this kind of Bank by societies, provided that the bye laws are carefully drafted and include provisions limiting the dividend to a reasonable percentage on share capital, so as to ensure that affiliated societies cannot become a prey to the capitalistic tendencies of the shareholders. The relations between societies and a bank of this class would be a matter of contract and it would be for the Registrar to see that the contract was not unfavourable to societies. In any case it would be necessary for such a bank to maintain its own independent field staff for the assessment of the credit of applicants for loans, whether such applications had been recommended by Unions or not, as its Committee would not include experienced representatives of the societies or be able to rely solely on the recommendations of groups of borrowing societies unconnected with it in pecuniary interest. It must of course be understood that a purely capitalistic Central Bank is not a suitable agency for the training and supervision of societies or for fixing the total borrowing capacities of societies

in respect of their dealings with the public. On the whole the difficulties that beset banks of this constitution are so considerable that we should prefer to see them gradually disappear.

106. *Banks with societies only as shareholders.*—The second class, consisting of purely co-operative banks, would in theory be the type best suited to finance societies satisfactorily. The antagonism of interest between the shareholders of the Central Banks and the borrowing societies is eliminated by the identification of the two parties. The management of this class of bank entails the least possible expense, as owing to the union of borrowers and lenders, the staff, maintained to verify the credit of borrowers or to recover loans from them, may be on a much diminished scale. There is no need of earning dividends since the profits out of which they come are derived from the very institutions which would receive them. On the other hand, it is difficult under present conditions to find among the members of societies representatives with sufficient capacity to manage such an institution, and this type of bank generally fails to excite the interest or leave room for the assistance of the middle classes, who by its constitution are excluded from active participation in the movement; nor has it the necessary prestige to command local deposits to the extent to which they would have been forthcoming if the middle classes were identified with the bank. In view of these practical difficulties banks started on these lines have not hitherto proved an unqualified success, and though they represent the model at which co-operation should ultimately aim, they should not be unduly forced. Where the necessary personnel is available, it might be possible for them to obtain the advantages of the help of the educated public by allowing the co-option of individual capitalists or others as directors with a substantial shareholding, as has been commonly done in Europe, and although the co-option of one or two such directors might not bring in as much deposit capital as in banks where the middle class was more substantially represented, there would ordinarily, on the other hand, be a compensating reduction in dividends and other expenses. The system, however, has not hitherto been tried in India.

107. *Banks with mixed constitution.*—The third or mixed type comprehends banks in which societies are not only assigned a certain proportion of the shares but also are given separate representation on the board of directors. If provisions are introduced which by securing to societies a majority on the directorate and by limiting dividends to a reasonable rate, will prevent individual shareholders from enjoying an undue advantage, we consider this class of bank well suited to present conditions. Though not so cheaply managed as the second class, it will be cheaper than the first and in addition offers a means whereby an intelligent directorate can be obtained and the middle classes of the locality enabled to take their part in the movement. In starting new Central Banks, it will be well usually to adopt this system, but provision should be made to enable the bank by degrees to become more co-operative by diminishing the number of its non-working individual shareholders either by lapse or by redeeming their shares or by confining all fresh share issues that may be found necessary to societies only.

108. *Area suitable for a Central Bank.*—It is usual, except in some cases in the Punjab, to assign to each Central Bank a definite area within which it may grant loans to societies, but the area covered and the number of societies served varies considerably. There is a tendency to assimilate a bank's area of operations to some administrative unit

such as a district or sub-division or tahsil or taluka, and in many instances banks have hitherto worked successfully in comparatively small areas, but in these cases they have not undertaken the full expenses which in our opinion should be borne by Central Banks, and they have generally enjoyed the advantage of wide margins between their borrowing and lending rates. If our recommendations in respect of staff and fluid resource are carried into effect, the expenses of Central Banks will absorb a substantial part of their working Capital, and the cost will of course be proportionately less when distributed over a larger business. Consequently a Central Bank should cover as large an area as is compatible with convenience and efficiency. Although it may commence on a small scale, it cannot expect ultimately to work at a profit unless it has a considerable capital and we think that a Central Bank should ordinarily expect to deal, either at once or within a reasonable time, with at least 200 to 250 societies. Subject to the above considerations it is always well to adhere as far as possible to administrative divisions and to avoid the creation of banks intended permanently to deal with any area exceeding a district.

109. *Possibility of substituting branches of Provincial Bank.*—It has not infrequently been suggested that where there is an apex or Provincial Bank, the Central Banks might with advantage be converted into branches of it. It is contended that the concentration of banking skill and experience and the aggregation of funds and accounts in one place would entail a saving in management and that Central Banks would then be regarded simply as machines for taking in and giving out money under the directions of the Provincial Board, and could be left in charge of managers on comparatively low pay. There is some doubt, however, as to the possibility of carrying on the work through a low-paid local manager and there is also the consideration that such a change would involve the loss of a good deal of service now done gratuitously. Even if it be admitted that there will be an economy in management, there are still further objections to be considered. A Central Bank gives an opening whereby the middle classes can interest themselves in the movement, and even though local committees were organised to supervise the branches, it is probable that local enthusiasts would work with a keener sense of responsibility and zeal for their own independent bank than for a branch of the Provincial Bank. If a manager on high pay were found to be necessary, it would be some time before the Provincial Bank's business would be on a large enough scale to permit of his maintenance, and difficulties might be experienced on account of the want of energy on the part of a branch committee in obtaining repayments and deposits or in enquiring into loan applications. Indeed in cases where there is no system of subordinate Unions, it is difficult to see how a Central Bank could be dispensed with. Our conclusion, therefore, is that although there is no reason why branches should not be established in preference to Central Banks in places where Unions have been developed, local conditions should always be well weighed before this step is taken, and we imagine that in most cases it will for some time to come be the cheaper and more efficient course to adhere to the system of independent Central Banks.

110. *The Directors and their duties.*—The management of Banks is carried on by a body known as the Board of Directors or the Managing Committee, having under it sometimes a special working sub-committee to deal with urgent work. Routine business is usually disposed of by the Chairman or one of the other Directors in the capacity of,

or in consultation with, the Secretary or Manager, helped to a varying extent by other members. The work of the Directors is almost always honorary and besides helping in the disposal of office work they are also found undertaking in many provinces the work of supervision and reporting on loan applications from societies in their neighbourhood, each Director being occasionally placed in charge for these purposes of a defined portion of the total area served by the Bank. They also frequently by their local influence give valuable help in obtaining deposits for their Banks and arranging renewals. Meetings are generally held monthly and even when Directors live so far away from the Bank's office that they are unable to attend all meetings, they can generally be relied on to be present at the more important meetings held once or twice a year to assess the credit of societies and to settle the chief items in the year's programme. It is sometimes urged that the management of these Banks being in the hands of amateurs cannot be expected to stand a very critical scrutiny. It is true that these Banks lack the expert Managing Director or Manager who advises the non-specialist Directors of Joint Stock Banks, but on the other hand, the type of Director who is generally chosen as a representative by the individual shareholders and devotes himself to the work of management of such Banks, is as a rule enthusiastic and intelligent, and the work itself is by no means so complicated as in a Joint Stock Bank. A Joint Stock Banker must understand trade and finance, possess a thorough knowledge of commercial law and stock exchange practice, be competent to deal with bailment and monetary business, and skilled in judging men and selecting the right sort of business. A Co-operative Banker, on the other hand, needs only to have a general understanding of money rates and to fix his own rates so as to produce the margin of profit required to carry on the Bank on sound lines; he should be able to forecast probable receipts and demands from societies, to maintain careful accounts, and to see that his working capital is regularly employed and that sufficient fluid resource is always kept available. He needs to exercise very little discrimination in the selection of business, and in the important work of assessing credit reliance is placed either on the reports of Unions or on information supplied by Directors who for this purpose need not so much a business training as local knowledge and common sense. The work of Co-operative Banks is accordingly simpler in itself than that of Joint Stock Banks, and for its successful despatch calls less for technical skill than for ordinary probity and knowledge. It is therefore well within the capacity of the intelligent lawyer or other professional man, who usually works on the Board of a Central Bank, and though every opportunity should be taken of securing expert banking knowledge on a Board when possible, the fact that it is absent does not necessarily mean that the business will not be competently administered.

111. *The Bank's staff.*—In some banks a good deal of work is entrusted to a paid manager and, although we hold it advisable to restrict the paid agency of banks as much as possible, we consider that where such agency is found necessary it should always be adequately remunerated. As regards the staff required for supervising societies, we have already dealt with the matter in paragraph 98. It is the business of the Directors and the staff to visit villages from which spontaneous applications are received and to organize societies therein, but we have come across cases where their help has been somewhat recklessly used and where societies have been multiplied in excess of the financial resources locally available, a situation which has resulted in the Registrar himself being driven to tout for funds in the outside money market. We would draw attention to the

stipulation made in paragraph 39 that the growth of societies should proceed spontaneously by imitation of existing societies, and hold the view that if co-operation is started on right lines, the staff of Central Banks can be employed more usefully in helping and advising voluntary applicants for societies than in propagandist activities.

112. *Extent to which different classes of Societies should use Central Banks.*—In all Central Banks which admit societies as shareholders, we think that no credit society should be granted a loan unless it has first subscribed to a share, and that all credit societies within the jurisdiction of a Bank should be encouraged in every way to become shareholders. Similarly it is advisable that non-agricultural societies should become shareholders in Central Banks, though in their case the necessity is not so great. Non-credit societies (productive, distributive, etc.) stand on a different footing; but there is no objection to their making use of a Central Bank provided that they take an adequate number of shares and offer sufficient security. In their case, however, no rule need be laid down preventing them from applying for such funds as they need to any agency they may prefer. In the case of insurance societies we would go further and deprecate any financial connection between them and Central Banks except in so far as they may be permitted to deposit their surplus funds in them. The intermixture of insurance and credit business is attended with grave danger, and the financing of insurance societies should as a rule be left to separate reinsurance Institutions.

113. *Book Banks.*—Central Banks in India usually receive and pay out cash from their own offices, but we have met with cases in which all transactions were carried out through a neighbouring Joint Stock Bank, the Central Bank in such cases playing the part of what is known in Europe as a Book Bank. We see no objection to an arrangement of this kind if the respective positions of the two Banks towards each other and towards outside persons paying in or withdrawing money are clearly defined, but as the volume of a Central Bank's business develops, we imagine that a time will arrive when it will be found more convenient for them to conduct their own money transactions.

Composition of Capital

114. *Composition of Capital of Central Banks.*—As in the case of primary societies the four main sources of working capital are (1) shares, (2) deposits, (3) loans, (4) Reserve Fund, and the figures under each of these heads were at the end of the last official year approximately as follows:—

	Rs.
Shares	27,02,078
Deposits	1,38,95,367
Loans	35,92,891
Reserve Fund	4,44,800

115. *Affiliation fees.*—The Reserve fund will be dealt with separately below, and before dealing with the remaining heads there is a small point which calls for notice. We find that it is unusual for Central Banks to levy any entrance or affiliation fees, and where they are required (as in Bihar and Orissa, and Assam) the amounts charged are insignificant. We see no advantage in the practice, and would have no objection to its discontinuance.

Shares

116. *Amount of Share Capital.*—The figures below show the amount of share capital possessed by Central Banks and its relation to their total liabilities in each Province. The share capital is subscribed by two main classes, *viz.*:—

(*a*) individual shareholders and (*b*) affiliated societies. In order to reassure the public and attract deposits it is advisable that the total share capital should be as large as possible consistently with the economical working of the Bank, and in many banks in some provinces we doubt if the proportion which it bears to the total liabilities is sufficiently large.

Province	Amount of paid up Share Capital in lakhs of Rupees	Average per Bank in thousands of Rupees	Percentage of paid up Share Capital on total liabilities
1	2	3	4
Madras	1.97	8	8.3
Bombay	.59	9	24.1
Bengal	3.84	11	11.5
Bihar and Orissa	1.15	9	13.9
United Provinces	6.31	11	10.4
Punjab	6.19	16	13.9
Burma	.53	26	12.6
Central Provinces	4.97	17	18.9
Assam	.25	4	14.4
Ajmer	1.22	24	16.0
Total ..	**27.02**	**4**	**12.7**

117. *Preference and Ordinary Shares.*—In banks of the ' mixed ' type, we find both of the two above mentioned classes of shareholders, *viz.* individuals and societies, and in some provinces it has been customary to distinguish their interests by classifying the shares held by the former as preference and the latter as ordinary. The idea underlying the distinction is to increase the security of that portion of the capital offered to the investing public by granting it a preferential position as regards dividend, involving in some cases a certain rate of cumulative dividend, and in some cases also a prior claim on the capital in the event of liquidation. We should disapprove of these last two forms of preference, but see no objection to the grant of the usual preference on dividends if it is found absolutely necessary to attract local capital. Where this necessity does not exist, we think it more simple and convenient to treat all shares on the same footing.

118. *Size of Shares.*—The size of single shares varies considerably, and their values range from Rs. 10 to Rs. 500, those assigned to individual members being often larger than those held by societies in the same bank. The determination of the face value of shares is in our opinion a matter for local convenience and we can suggest no general rule, but think that on the whole it is simpler that the shares held by societies and individuals should be of the same value.

119. *Shares held by societies.*—We think that it is ordinarily preferable to require primary societies to subscribe to a number of shares in a Central Bank that may bear some proportion to their borrowings from the Bank. This arrangement has the merit of maintaining a proper relation between the obligations of the societies to the Central Bank and the advantages gained by them from it, and it is the system ordinarily adopted in Europe.

120. *Limit on number of shares to be taken by individuals.*—In the case of individual shareholders, the ordinary object of a society is to raise the amount of share capital which it requires without allowing any individual to obtain a preponderating voice in the management, and for this reason the total holding of any one person has been limited under the Act to Rs. 1,000 or one fifth of the total share capital, whichever may be less. In cases where difficulty is experienced in raising sufficient share capital, the shares are sometimes subscribed by a few large holders, and when necessary for this purpose, the statutory limit may be raised by a special order of the local Government to some higher figure such as Rs. 5,000, or Rs. 7,500, as has already been done in certain Provinces; but in such cases precautions should be taken to ensure that each shareholder should not be allowed more than one vote. The practice with regard to voting power differs in different provinces. In the Punjab and the United Provinces for instance the rule is that each share entitles the holder to one vote; in Assam, Central Provinces, and Bihar and Orissa, every member has one vote only; in Bombay and Burma voting power is ordinarily based on shares but graduated so as to give proportionately fewer votes to the larger shareholder than to the smaller one. In new Banks we would recommend one vote per head as the fairest system and likely to keep alive most interest among ordinary members without deterring those who can afford it from subscribing to more than one share. The precaution of giving each member one vote only is no doubt less necessary in cases where the number of shareholders is large, but even here it can do no harm. Apart from this, we think that, the object of a bank being to extend a shareholding interest to as many suitable members of the public as are willing to come forward and take up co-operative work, it is advisable, so long as enough share capital can be obtained in the ordinary way to adhere to the limits fixed by the Act.

121. *Reserve Liability.*—All shares held by individuals should in our opinion be fully paid up, and we deprecate the use of reserve liability in the case of such shares. The idea of reserve liability is based on English practice, and is not well adapted to the circumstances of the banks which we are considering. We understand that very few good Joint Stock Banks in India refrain from calling up the full amount of their share capital. We hold that reserve liability, if regarded as an additional security to a bank, is liable in this country to prove misleading and that great difficulty may be experienced in collecting the uncalled portions of shares, when they are required, owing to the fact that shareholders are generally widely scattered, to the joint family system, and to the delays and expense attending civil suits. In the case of shares held by societies there is not the same difficulty in recovery and we should have no objection if an exception were made in the case of such societies and their shares were half paid up, leaving the remaining half as reserve liability.

122. *Liability should not extend beyond face value.*—The total liability attaching to shares, whether held by individuals or societies, is ordinarily limited to their face value,

and we approve of this practice. The banks of some provinces have followed the example set by Germany, and fixed the liability on the shares held by societies at some multiple, generally 4 to 10 times, of the face value. The simultaneous adoption of two standards of liability tends to confuse the public, and in cases where a large degree of liability is found really necessary, we should prefer it to take the form of an increase in the face value of shares together with an increase in the reserve liability attaching to them. But, as we have noted above, we deprecate reserve liability on shares held by individuals, and do not advocate its extended use in the case of shares held by societies because we think the object aimed at can be secured by requiring societies to subscribe to shares proportionately to their borrowings.

123. *Limitation of dividends.*—The provision of the Act which permits the issue of rules limiting the rate of dividend has been utilized by most local Governments. In Bombay the maximum under certain conditions has been fixed at 9 per cent. and in Burma it has been fixed as high as 30 per cent., but in other Provinces the ordinary maximum is 12 or 12½ per cent. We agree entirely in the necessity of fixing a maximum rate, but would have it laid down on some logical principle. It would be possible to require, as in Europe, that the rate should not exceed the average rate charged on loans to societies, or it could be arranged that the rate should not exceed by more than 2 or 3 per cent. the average rate paid by the Bank to its fixed depositors. When the bulk of the shares are held by societies the former system is justified by the consideration that it is reasonable that the rate of dividend obtained by societies should approximate to the rate which they pay on loans. Where however the shareholders are chiefly individuals, we prefer the latter principle, because, while their profits should not be disproportionately greater than those of depositors, they should at the same time be paid at a substantially higher rate for the increased measure of risk which they undertake, and in many Joint Stock Banks we find that the compensation for this risk corresponds to a margin of 2 or 3 per cent. calculated on the shares at their market value. Judged by these standards the present maxima of 12 per cent. or more are in most cases too high, and, as they have seldom been reached in practice, it should be possible to reduce them. In cases where the capitalist interest is strong, and the banks decline to reduce their rate of interest, a remedy may be found in starting a new bank on more co-operative lines to finance the societies concerned.

No bonus which brings the total of the dividend and bonus above the maximum rate should be allowed; in fact we should be glad to see the distribution of such bonuses to shareholders absolutely prohibited, as the same reasons do not exist for the practice as in the case of Joint Stock Banks.

Deposits

124. *Data regarding deposits.*—Our returns do not distinguish loans from deposits; and part of the money shown as loans and deposits received from members and non-members is in fact represented by loans from Joint Stock Banks. Allowing for the inclusion of such loans the total amount received on deposit (other than deposits from co-operative institutions) by Central Banks in India (including Provincial Banks) is 203 lakhs, having risen to that figure from 37.48 lakhs in 1910-11 and from 1.19 lakhs

in 1906-07. If Provincial banks are excluded the total deposits *plus* loans from Joint Stock Banks are now 138.95 lakhs, of which 38.17 lakhs are from members. The figures for the various provinces are shown below.

Province	Deposits by members and non-members* In lakhs of Rupees	Percentage on total liabilities
Madras	16.65	70.7
Bombay	1.74	71.6
Bengal	26.86	80.4
Bihar and Orissa	6.33	76.7
United Provinces	40.34	66.8
Punjab	29.94	67.2
Burma	1.73	40.7
Central Provinces	8.40	32.0
Assam	1.37	79.2
Ajmer	5.59	73.4
Total	**138.95**	**65.4**

*Including loans from Joint Stock Banks.

125. *Deposits from societies which are members of Central Banks.*—The annual returns show loans and deposits from members and from societies separately and we believe that, although the practice varies, it is not unusual to show deposits from societies which are members of Central Banks as well as loans and deposits from individual members under the former head. If this is so, deposits from the individual members of Central Banks cannot be clearly distinguished from those from affiliated societies but the point is of little importance since deposits from societies which are members are not large, and if our recommendations are accepted, the system under which such deposits are made will be considerably simplified. Deposits from societies should in our opinion be confined to (1) excess deposits received by them and passed on at special rates under the arrangements referred to in paragraph 52 above and (2) small sums deposited as a convenience for short periods. In addition to these however it is customary in some provinces for societies to deposit their reserve funds in the Central Bank. In Madras for instance this is compulsory, and in Burma one quarter must be so deposited; while in the United Provinces a considerable proportion of the reserve funds are in fact treated in the same way. We look on this arrangement as unsound. If not readily available, a reserve fund so deposited is of no benefit to the society and only enables the shareholders of Central Banks to swell their dividends at the expense of primary societies. We should therefore advocate the rescission of the practice wherever it now exists.

126. *How far deposits cause competition with Joint Stock Banks.*—The deposits in Central Banks are chiefly derived from professional men, landowners of a medium status, and other sections of the middle classes; and from our enquiries we are satisfied that in most cases a new source of deposit is being tapped by Central Banks as well as by primary societies. Europeans and Government servants are also beginning to favour deposits in Central Banks as an investment, and even in their case the amounts deposited

would often have been employed in commercial investment rather than placed in Joint Stock Banks, if this new opening had not been offered to them. No doubt there is a residue of deposits which are obtained by Central Banks in direct competition with Joint Stock Banks, and this competition is perhaps most marked in parts of Bengal, where Joint Stock institutions known as ' Loan Offices ' have been established in most of the important towns. In Northern India also, there is evidence that an appreciable amount of deposits has been withdrawn during the last year or two from certain Joint Stock Banks and placed in Central Banks. At the present stage of course the movement has not reached a scale on which it can seriously affect Joint Stock Banks, as the loans and deposits held by Central Banks amount only to 1.74 crores as compared with 96 crores deposited in Joint Stock Banks. But although as time goes on the competition of Central Banks for the deposits of the public will increase, we believe that any direct loss of deposits, which Joint Stock Banks may suffer will be more than made good by the enormous impulse which the Co-operative Banks will give to the development of the banking habit among the people, and we consider that Joint Stock Banks, so far from being losers, will profit by the increased trade and commercial prosperity which must inevitably result from the growth of the co-operative movement.

127. *Current Accounts.*—We have already given our reasons for holding that in primary societies no current accounts ought to be opened. The same objections apply to a large extent in the case of Central Banks; the staff for maintaining the accounts is expensive and there is the risk of forgery or sudden runs to be met. The practice, moreover, has no direct connection with co-operation and entails a certain amount of competition with Joint Stock Banks which are in a better position to deal with such accounts. It requires some legal knowledge which the staff of a Central Bank do not always possess. At the same time there are frequently cases where owing to the absence of a commercial bank, the clientele of a Central Bank cannot obtain the convenience of current accounts through any other agency, and it is also found that current accounts often lead on to fixed deposits on a larger scale. Where therefore owing to the absence of good banking facilities there is a real necessity for this class of work, we would not recommend its entire prohibition; but where current accounts are allowed, it should be on the condition that, at any rate for some years to come, the whole amount held on current account should be covered by fluid resource irrespective of such resource maintained for ordinary business. The accounts should in any case be at a rate of interest not exceeding 2 per cent., and may be opened on these terms without objection for non-members as well as for members.

128. *Savings Accounts.*—In dealing with primary societies we stated that in view of the urgent necessity for encouraging thrift we considered it inadvisable to prohibit them from accepting savings deposits provided that certain precautions were observed. In the case of Central Banks, however, the clientele belongs to a less impoverished class, to which the facilities of the Government Post Office Savings Banks are open. As experience has shown, this class is liable in India, far more than in Europe, to panics and has a tendency to withdraw suddenly large amounts of money. It is urged therefore that Central Banks should eschew this troublesome and risky branch of business and should leave their members to deposit their savings in the Post Office Savings Bank or in primary societies, if they wish to do so. We fully recognise the force of these objec-

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tions but we are reluctant to see the door closed on any scheme which may conceivably act as an encouragement to thrift. We would therefore permit Central Banks to open savings accounts on behalf of members and non-members alike on condition that 75 per cent. of the amount held is covered, that the maximum accepted from individual depositors on these accounts is fixed at a low figure, that a brief notice of withdrawal is required in all cases, and that no bank allows its savings deposits branch to be used for the purposes of current account business. The deposit of money in a bank which uses it locally is of more educative value than a deposit in the Post Office, and the example of the Central Bank in encouraging savings is likely to stimulate the growth of a similar practice in the surrounding villages. Even if the volume of this branch of business increases appreciably, we believe that in view of the development of thrift it will not ultimately in any way have any prejudicial effect on deposits in other savings institutions.

129. *Amount of deposits and areas from which they are taken.*—In practice we find that deposits represent a far larger percentage of the total working capital in Central Banks than in primary societies and it is important that deposits in sufficient quantities should always be forthcoming. We have met with cases where Central Banks instead of working for deposits have had recourse to the more facile expedient of obtaining loans from Joint Stock Banks and we consider that every effort should be made to meet as large a proportion as possible of the Central Banks' outside needs from their own deposits. Central Banks in fact should base their finance on their own local credit and should not merely serve as conduit pipes for conveying outside money to societies.

As regards the area from which deposits should be drawn, we have found cases in which Central Banks have at the instance of the Provincial Bank been prohibited from taking deposits from outside their own area of operations, and we are aware that losses have been caused to banks in Germany from the practice of attracting deposits from a distance by offering high rates. We believe that as banks in this country, unlike those in Germany, are debarred by law from using their funds in any sort of speculation, the same inducement to seek deposits recklessly from all quarters does not exist and we are not prepared to recommend any general restriction on the area from which deposits should be taken. If restrictions are found to be desirable, the question is one that may be left to the local authorities. In cases where it is found that a Central Bank is obtaining outside deposits at a rate which is really raising the rate of interest payable by the whole movement, or where one Central Bank by trenching on another's district is undermining its credit and draining away its resources, restrictions of some kind may suitably be imposed, but we believe that as a rule the different rates of interest offered by different Central Banks will gradually adjust themselves to nearly the same level, and we doubt whether any definite action to supplement this tendency will be found necessary.

130. *Term of deposits.*—It should in our opinion be assumed that it is unsafe for any banking institution to invest its funds in loans for longer periods than those for which the funds so invested are entrusted to it; that deposits must ordinarily be met from repayments of loans and not from potential renewals of fresh deposits (which should be exclusively employed either in fresh business or invested in fluid resources) and that the general body of fluid resource can only be legitimately utilized for the purpose of meeting depositors when there is a derangement of normal conditions. Where therefore

as is usually the case the bulk of primary societies' needs are for one year loans, it follows that the bulk of the deposits which a Central Bank secures should be for one year, and we believe that there will nowhere be any difficulty in securing deposits for this period. But in addition to the one year business a society always has a large amount of important business requiring loans of from 2 to 5 years which a Central Bank should meet if it possibly can and in deciding whether it can do so or not the Central Bank must postpone the interests of the primary society to its paramount obligation of meeting the depositor. It follows that the amount of such long term business accepted must be confined (*a*) to such amount as its own 'owned' capital will justify (from paragraph 138 it will be seen that such capital amounts on the average to 14.8 per cent. of the total working capital) and (*b*) to such further amount as any longer deposits they may be able to attract will justify them in accepting. To avoid any possibility of misapprehension as to the effect of these suggestions, it may be explained, that in most cases money lent to societies is, we believe, not fully repaid to Central Banks until an interval averaging from 3 to 4 years elapses, but the payment would be made in yearly instalments, and where this is so it is sufficient that arrangements should be made to distribute the long and short term loans so that the amount to be repaid each year from the society under the terms of the loans should somewhat exceed the amount of the deposits which fall due for payment that year. The same broad principles govern the acceptance of short term deposits. If funds are required to carry a society on for a short period such as a month or two till the next harvest or till prices rise, short term deposits may legitimately be taken for this purpose. So too would such deposits be justifiable if a portion of the Central Bank's business were financed by a cash credit overdraft carrying a higher rate of interest, for such deposits could then be utilized in reducing the overdraft.

The receipt and repayment of deposits should be distributed over the year as far as possible, in accordance with the generally accepted principle of spreading the liability. It is the practice in one province to arrange that all deposits become payable on the same date and to fix repayments from borrowing societies so as to fall due two months prior to this date, but we believe that such a practice is unknown in ordinary banking and doubt if such an arrangement will be always found convenient, since in the event of a famine it involves the risk of having a great part of the Bank's deposits withdrawn at a time when no repayments might be forthcoming to meet them, and also since it tends to accentuate the liability in the event of financial pressure synchronizing with the date of the maturity of the deposits.

131. *Deposit rates.*—We have recommended in this report that efforts should be made to obtain long term deposits in greater degree; that adequate fluid resource should be kept; and that in cases where societies do not pay their share by direct contribution, the co-operative supervising and auditing staff maintained to inspect the work of societies should be paid by the Central Banks, who would in turn recover that share by an increase in the rate at which they lend to societies. It has been found that the rate generally paid to their depositors by Central Banks varies from five to seven per cent. on one year's deposits with an increase of from a half to one per cent. for each additional year, when deposits are obtained for longer terms. If the recommendations above referred to are carried out, and the cost of the supervising and auditing staff is paid by

the Central Banks, we regard it as improbable that any Central Bank will be able to lend to societies at a rate of much less than 3 per cent. over that at which it borrows. Inasmuch as societies should put at least two per cent. of their borrowed capital to reserve and require one half per cent. for miscellaneous expenses (in some provinces the actual percentages are much larger), and the cost of their share of the supervising and auditing staff will have to be provided from the rate charged on loans to members whether it is taken by direct contribution from the societies or included in the rate charged by Central Banks, it is clear that the minimum margin between the average rate at which Central Banks can borrow money and the average rate at which loans are made to members of societies must be about 6 per cent.

132. *Repayment of deposits.*—Care must of course be taken by Central Banks to repay deposits with the strictest punctuality. In spite of difficulties caused by the war there have been very few failures to repay deposits on due dates, but it is very necessary to remember that the depositors in Central Banks, unlike those in primary societies, have usually made their deposits on ordinary commercial principles and cannot be kept waiting for repayment without the risk of damaging the reputation of the Bank. It is however justifiable to enquire some time ahead what deposits are likely to be renewed, and it will greatly facilitate forecasting if the practice is regularly resorted to.

Loans to Central Banks

133. *Classes of loans.*—Loans are received by Central Banks (1) from outside banks, (2) from other Central Banks, (3) from Provincial Banks and (4) from Government. The figures derived from each source are, approximately as shown below; but it should be noted that in cases where cash credits have been granted by outside banks, only the portion actually drawn by a Central Bank has been included. Loans from Provincial Banks and from Government are dealt with in another place and for the present we confine ourselves to loans from (1) outside banks and (2) Central Banks.

*Loans to Central Banks from	In lakhs of rupees
Outside Banks	15.53
Central Banks	12.57
Provincial Banks	17.40
Government	.94
Total	46.44

* The first item shows the figure, on January 1st, 1915, the remaining 3 items refer to the figure at the close of the year 1913-14.

The outside banks lending to Co-operative Societies may be dealt with separately according as they are Presidency Banks and Joint Stock Banks. The accommodation required from them is of two kinds; firstly to provide working capital which is needed for use in loans, and secondly to furnish a reserve which will constitute the whole or part of the fluid resource. The first may take the form either of a cash credit fully operated upon or a loan, while the second would be a cash credit granted but not ordinarily operated upon.

134. *Advances by Presidency Banks.*—Advances made by Presidency Banks have usually taken the form of cash credits at reasonable rates, generally approximating in the case of the Bank of Bengal to the Bank rate, and the total amount of the cash credits sanctioned and of the drawings against them were on 1st January last as shown below. The Presidency Banks are by law forbidden to grant any advances (*a*) except on the signatures of two approved parties, (*b*) for more than 6 months. The limited period for which loans may be granted by Presidency Banks leaves Central Banks in doubt as to the period for which they can count with certainty on such part of the accommodation obtained as they reserve as fluid resource, but for the present we see no objection to allowing Central Banks to regard the undrawn portion of their cash credits as a fluid asset, and we would exempt them from providing liquid cover for any portion they may have actually drawn.

Presidency Bank 1	Total cash credits sanctioned 2	Number of cash credits sanctioned 3	Amount actually drawn 4
Bank of Madras	1,00,000	1	27,063
Bank of Bengal—			
in Bengal	25,000	1	3,370
in Punjab*	7,20,000	14	5,03,224
Total ..	**8,45,000**	**18**	**5,33,657**

* Cash credits have also been sanctioned in favour of 2 additional Central Banks in the Punjab for which figures are not available.

135. *Advances by Joint Stock Banks.*—Advances are obtained from Joint Stock Banks at moderate rates of interest either in the form of loans or more frequently of cash credits. The total sums actually so advanced in the several provinces on January 1st, 1915, were as shown below. These advances are usually made on the pro-notes or bonds of societies without further security and can be recalled either on demand or on 3 or 6 months' notice. They may also usually be repaid at will by Central Banks according to their convenience. It would be more satisfactory if cash credit accommodation for longer periods were obtainable, but we recognise the difficulty of arranging for these especially in the case of credits for fluid resource. As in the case of Presidency Banks we look on such cash credits as are given by banks of assured position as constituting legitimate fluid resource. Before granting loans it is usual for Joint Stock Banks to examine the balance sheet of the applicant Central Bank, the auditor's note, and any other papers it produces, and to refer to the Registrar. In one Province we found Central Banks negotiating direct for advances without the intervention of the Registrar while in others the Joint Stock Banks relied mainly on his recommendation and made little or no further enquiry. The best course seems to us to lie between these two extremes. It is advisable that the Registrar should introduce Central Banks to Joint Stock Banks, and it is his duty to furnish the latter with any explanation or information that they may require, pointing out clearly that neither he nor Government are responsible for the Central Bank. Joint Stock Banks should not be led to grant advances on any expectation of Government support, but should be induced to examine the work and financial position of Central Banks for themselves and to understand the safeguards of the move-

ment and the relation of Central Banks to the whole system. The more Joint Stock Banks study and examine the movement, the more will they be able to appreciate the value of the security offered. The Registrar, besides acting as the introducer of Central Banks can assist Joint Stock Banks by ascertaining for them in advance the probable needs of all Central Banks which look to them for loans and thereby enable them to make comprehensive arrangements for financing the Central Banks without suffering the inconvenience of intermittent and irregular applications.

Province 1	Total cash credits sanctioned 2	Number of cash credits sanctioned 3	Amount actually drawn 4	Loans 5
Madras	60,000	2	44,000	36,000
Bengal	6,50,000	5	5,88,057	..
Bihar and Orissa	7,000	2	942	..
United Provinces..	3,32,600	8	1,86,400	97,900
Punjab	1,00,000	1	66,650	..
Total ..	**11,49,600**	**18**	**8,86,049**	**1,33,900**

136. *Loans from one Central Bank to another.*—Loans from one Central Bank to another may be made with the sanction of the Registrar, and where there is no Provincial Bank, such loans constitute the only means by which Central Banks can properly utilize their surplus funds for the general good of the movement. The system of inter-Central Bank lending is uneconomical and inconvenient and leads to the interlocking of liabilities. On the establishment of a Provincial Bank, all direct inter-lending among Central Banks should be brought to a close, and the Provincial Bank should be used by them as a balancing centre for this purpose and as the medium for advances from Presidency or Joint Stock Banks.

137. *Debentures.*—We have been urged from several quarters to recommend Central Banks to issue debentures in order that they may obtain funds which cannot be withdrawn for a long period and we find that certain Central Banks are already obtaining part of their capital in this way. In the United Provinces for instance several Central Banks have received non-transferable advances from the public which are fixed for 5 years, and which, though known as debentures, are scarcely distinguishable from deposits. In Assam debentures are found which are transferable and repayable after 5 years, but for the redemption of which no sinking fund is provided. In neither case are the debentures secured on real property of any sort. The advantage of a genuine debenture as compared with a long-term deposit is that it is negotiable, but the ordinary investor is usually under the impression that transferable debentures, even when they are not secured on real property, have a prior lien on the assets over deposits, and we fear therefore that the issue of debentures would have the effect of checking the inflow of deposits. Outside the Presidency towns the debenture system is practically unknown in India and we understand that debentures are in fact very seldom if ever issued in this country by any institution which does not hold tangible property as security for them and which itself also accepts deposits. Judging from the rates at which secured debentures are issued by Port Trusts and similar bodies, we doubt if the unsecured debentures of Co-operative Banks could be floated in any considerable number except at unprofit-

ably high rates. On the whole we believe that Central Banks can best attain their object by laying themselves out to attract long term deposits. Both the lending public and the banks themselves are well acquainted with the deposit system and can work it without difficulty. We do not therefore recommend any departure from this system except in very special circumstances. If indeed arrangements can be made for securing debentures on land (as has been proposed in the case of one Central Bank in Berar) and if a regular sinking fund is constituted, the position is made clear and so far from discouraging a system of this character we consider that it affords an excellent method of securing money for the liquidation of old debts and for the redemption of mortgages in places where the law of land transfer offers no impediment to the alienation of land.

Proportion of Capital owned by Central Banks

138. The proportion of the paid up share capital and reserve fund to the total liabilities in the Central Banks of the various Provinces is as shown below. The corresponding figure for the 18 chief Joint Stock Banks in India is 13.9 per cent. ; that for eight leading chief Joint Stock Banks in England is 7.6 per cent. In the interest of depositors we consider that the paid up share capital and reserve should in ordinary circumstances be maintained at a figure not less than 12½ per cent. of the total liabilities.

Provinces	Percentage of paid up share capital and reserve fund on total liabilities
Madras	8.8
Bombay	25.1
Bengal	12.5
Bihar and Orissa	15.7
United Provinces	15.5
Punjab	14.6
Burma	12.9
Central Provinces	19.6
Assam	17.1
Ajmer	17.0
Total British India	**14.8**

Employment of capital

Loans to affiliated societies

139. *Loans to individuals deprecated.*—Owing partly to the mistaken ideas with which some Central Banks were started and partly to the fact that several of these banks have developed out of ordinary urban credit societies, it is in some cases customary for

them to grant advances to individual shareholders, where they exist, as well as to affiliated societies. In most banks this practice is being gradually abandoned and we think rightly so. Wherever it is found essential that individual members should be enabled to take loans, we should prefer that a separate urban bank should be formed to meet their needs; but in cases where this is found impracticable, we would recommend that a bye law should be introduced with the object of gradually restricting the practice. In our opinion it is no part of the business of a Central Bank to grant loans to individuals. The object of the admission of the individual shareholder should be to secure his help and it is not intended that he should borrow funds or appropriate capital intended to support primary societies.

We may observe that under the conditions prevailing in India it is inadvisable for Central Banks to undertake any outside banking work and they should confine themselves to financing primary societies and serving as their balancing centre. In Europe it is true that outside business is undertaken both as a convenience to members and in order to increase the turnover, but with the agency at our disposal in India and at the present stage of development among the people we would discountenance any attempt on the part of Central Banks to seek profit by means of investments, discounting bills, or other methods of ordinary bankers.

140. *The assessment of the credit of societies by Central Banks.*—We have noted in paragraph 119 that the number of shares held by a society in a Central Bank should be proportionate to the loans received by it. By this we do not mean that by merely increasing its shareholding a society can indefinitely extend its borrowing capacity. The extent to which it may be financed by the Central Bank depends on quite different and independent considerations. As we said in speaking of primary societies the basic security is personal and depends on mutual knowledge and mutual responsibility. At the same time, in assessing a society's credit there are other factors which a Central Bank must not overlook. The data on which a primary society fixes the maximum normal credit of each of its members and the reasonableness of the total borrowing power fixed by the society for itself should be carefully re-examined and tested by the Union, or if there is no Union, by the staff of the Central Bank; and these data should after verification serve as the basis of the credit permissible to the society. It is then for the Bank to decide, after considering the needs of the society and the funds at its disposal, at what figure to assess the actual credit of the society for the year. The assessment of credit to which we refer would be an assessment of the total borrowing power of a society and as far as the Central Bank is concerned, would be reduced by any amount received by the society in the form of deposits or loans from other sources.

141. *The valuation utilized for the assessment.*—In assessing the credit of a society the degree to which the society as a whole has developed its co-operative capacities and the sense of mutual obligation among its members is one of the most vital considerations. As a check on this basis of assessment and as a supplement to it where the co-operative faculties are still deficient data are required to indicate (1) the value of the movable and immovable property owned by the members of a society, and (2) the earning and saving capacity of each member of a society. For these purposes a valuation statement should be prepared, showing firstly the estimated value of the property of each

member, known in Northern India as his "haisiyat," including the market value of his land, carts and cattle, and, if of appreciable value, his house and chattel property; and secondly, the average net income of each member, as indicated by his rent, or calculations of his receipts and expenditure, due allowance being made for the incidence of bad years and the misfortunes to which agriculture is exposed. The first part of the statement would serve to show the material security for any loan which might be advanced, and the second part the capacity of the members of the society to repay. These statements should not be prepared in minute detail, but should show the general position of each member approximately as known to the other members. Where a Union is in existence, this information should be supplemented by the judgment of the Union general meeting, and where there is no Union, the Central Bank must rely on its own local experience amplified by the enquiries of its supervising staff. The specific data contained in the valuation statements will be duly considered by the Central Bank in light of such general information as it may possess regarding the economic conditions of the area concerned, and the general results will serve as a guide to check such estimates as the Bank may have framed on its knowledge of the trustworthiness, self-reliance, intelligence and mutual goodwill of the members. The moral factors are not of course susceptible of exact estimation, but in some ways they can be more easily gauged in connection with a society than in connection with individual members, and as a society grows older, its record affords a reliable index of its moral worth. Having secured an estimate of the total value of the property covered by a society's liability and of the total net income of its members, it is for the Committee of the Central Bank to decide upon the maximum borrowing power from all sources. This constitutes the assessment of the society's credit, which together with the data on which it is based should be carefully revised every year. If these statements are carefully made, a periodic comparison of the statements of the assets and debts of a society will afford a valuable criterion of the results of co-operation in the society concerned.

142. *Assessment how differentiated from that of Joint Stock Banks.*—Here it may be well to note the essential distinction between the kind of credit recognised by a Co-operative Bank and a Joint Stock Bank. In both cases the material assets of the borrower and his annual income form the subject of enquiry and in both his general character is a relevant circumstance. But whereas Joint Stock Banks look mainly to the former consideration, Co-operative Banks pay more attention to the latter. Joint Stock Banks are dealing with individuals or isolated firms or institutions whose character they have to appraise, while the Co-operative Central Banks are dealing with societies each individual member of which has presumably been selected on moral considerations and is amenable to the control of his fellow members.

143. *Position of Registrar with regard to the assessment of credit.*—The responsibility for the preparation of the valuation register should as far as possible be undivided. Where a Union exists, it should rest with the Union and where there is none, with the Central Bank. It is no part of the duty of the Registrar or the Government staff to undertake this responsibility. At the same time, a general power must be reserved to the Registrar whereby he may control societies by requiring the reduction of the credits allowed to them by Central Banks for special reasons, such as want of energy in seeking deposits, disobedience to instructions, and so forth. This power can be granted if neces-

sary by means of a rule or bye law under section 30 of the Act, or if section 29 (1) is taken as covering loans to member-societies, by an order of the Registrar under that section.

144. *Time for issue of loans.*—It is in accordance with custom and convenient to members if the bulk of loans to societies are considered and sanctioned by Central Banks at one or two main seasons of the year. At the same time, arrangements should be made to supply emergent loans whenever they are wanted, and it is for Central Banks by delegation of power to specific authorities or otherwise to ensure that this is done.

145. *Ascertainment of objects of loans.*—In applying for loans societies should state the main objects for which they are required and the amount to be allotted to each object. When the application comes through a guaranteeing Union, the Central Bank, if it has sufficient funds, would ordinarily accept the opinion of the Union on this subject without further enquiry; but where its funds are insufficient to meet all the calls upon them, it may reasonably consider the purposes for which loans are required or may refer to the Union for advice as to which objects may be regarded as less urgent than the rest.

146. *Periods for which loans are given.*—The extent to which a Central Bank is able to grant a loan for the period for which it is wanted ought to be regulated by the periods for which a Central Bank gets its deposits. In granting loans, therefore, the Bank must be in possession of data showing what repayments may be reasonably expected by primary societies from their members, and it must be understood that the bulk of the repayments realized by societies from their members are to be passed on by them at once to their Central Bank in reduction of their loan account. The data might at first be uncertain and unreliable but a few years' experience should put the Bank in a satisfactory position for estimating repaying capacity. The actual percentage of loans recovered on loans outstanding for the last four years in the various Provinces is as shown below. It is open to a Central Bank, if it wishes to fix instalments of repayment, to do so after consulting the convenience of the borrowing society; or if it prefers to avoid the account complications which arise from the delays and postponements inherent in the recovery of agricultural loans, it may without fixing definite dates for repayment, sanction loans which are nominally recoverable at call. If the latter course is followed, the loan differs from a cash credit in that the society must make a fresh application for every fresh loan. In either case the period of loans, express or implied, must be conditioned by the period for which deposits are held, as the former, unlike the latter, is within the control of the Central Bank. We regret to find that the practice of many Central Banks is not in accord with this sound principle. Their tendency is to grant loans to societies for long terms and to permit societies similarly to advance loans for long periods to their members to suit their convenience. At the same time, they raise deposit capital as cheaply as possible on comparatively short terms, without sufficient regard to their ability to repay it on maturity, hoping, when the time comes, to secure either fresh deposits or renewals of existing deposits. The fact that they hold the pro-notes of societies payable at call does not justify this procedure, as it is clear that such debts cannot be called in without placing the members of their affiliated societies in an impossible position. In correlating loans and deposits it is not in our opinion correct to count on the renewal of deposits. Renewals like new loans should, as noted in paragraph 130 above, be devoted primarily to the development of fresh business.

Percentages for the last four years of repayments in each province annually on the total amount of loans outstanding at the end of previous year plus the amount advanced on loans in the course of the year

(In lakhs of rupees)

Province	1910-11	1911-12	1912-13	1913-14	Average percentage for the last 4 years
1	2	3	4	5	6
Madras	18.7	16.4	20.1	15.7	17.6
Bombay	35.2	31.0	19.3	38.8	30.6
Bengal	10.2	10.0	18.4	14.9	15.1
Bihar and Orissa	..	43.0	22.3	28.4	27.6
United Provinces	47.4	55.5	55.9	41.0	48.4
Punjab	17.0	20.1	18.5	17.1	18.1
Burma	5.0	19.8	29.8	26.5	24.5
Central Provinces	18.8	14.9	35.2	32.4	31.8
Assam	20.6	9.1	31.4	18.7	19.5
Coorg	..	..	..	..	..
Ajmer	30.5	38.5	49.5	29.3	38.7
Total ..	22.4	27.2	32.4	27.6	28.6

147. *Cash credits to Societies.*—The practice of giving cash credits to societies is still uncommon. They are found most frequently in Burma where they are granted either to a Union or to individual Societies recommended by a Union. Scattered instances also occur in Madras, Bombay, the United Provinces, and Bengal, but the selection of societies for the privilege of cash credits does not seem to have followed any very clear principle. In our opinion a cash credit should only be given when the Central Bank has acquired data on which to estimate the normal needs of a society and the normal repayments of loans, and they should be given only to those societies which are thoroughly well-managed and co-operative in character, and we think that to such societies they should be freely and increasingly given as a mark of approval of their excellence. In more than one province we find societies divided at audit into four or more classes according to their degree of merit, and where this good practice prevails we would recommend cash credits to all societies in the highest classes, and to them only. When a cash credit is opened in favour of a society the disbursing body whether a Central Bank or a Union can only maintain a very general control over the use of the money by means of inspection and threats of closing the account in case of misuse. But a society entitled to a cash credit is presumably to be trusted in the use of its funds, and in any case the cash credit should be granted subject to annual renewal, in order that, if the privilege

is abused or the account inadequately operated on, the Central Bank may have power to withdraw it.

148. *Security for loans to Societies.*—Provided that a precise date is fixed on a definite system within the society for individual members to repay their loans, we do not look on the determination by Central Banks of precise dates for repayment by societies as a necessity, and as outside financing agencies are more familiar with the use of pro-notes than bonds, we consider that the security required from societies should ordinarily take the form of pro-notes. This we understand is the usual practice in most provinces. It is not the custom of good Joint Stock Banks in this country to accept shares in their own Bank as security for loans, and as the shareholdings of primary societies in Central Banks serve as cover to depositors in Central Banks in addition to the repayments expected from societies, we consider that the shares held by societies should not be accepted as security for loans taken by them. This will of course be no impediment to the adoption of the system elsewhere recommended by us under which a society is obliged to take shares in a Central Bank in proportion to its borrowings from the Central Bank. Nor would it bar Central Banks from accepting at their own discretion a deposit held by them from a society as security for a loan to that society.

149. *Interest on loans to Societies.*— The rates of interest charged on loans to societies must on the one hand be materially lower than those charged in the bazar to persons of the class from whom members of co-operative societies are drawn and yet must be substantial enough to provide the large margin necessary for maintaining adequate fluid resource, building up a reserve, and meeting field and office establishment charges and other expenses incident to the proper working of the Bank. We find it usual for Central Banks to charge the same rate to all or most of their affiliated Societies and to make no variation in it whether the periods of loans are long or short. No doubt it is simpler and more convenient to charge a uniform rate, but we think it would often be wise to grant preferential terms to societies regarded as first class. So too as regards the length of loans, it is logical to require that as long-term deposits carry heavier rates of interest, the necessary margin should be maintained by charging enhanced rates on long-term loans. On the other hand, the security offered for such loans may be better and local custom may be opposed to any such rule; and these factors should be taken into consideration. In view of the temptations offered to the Bank's staff by the existence of different rates as between societies or as between particular loans, we would in any case require that the variations should be graduated within definite limits and fixed on a definite system laid down by the Central Bank in consultation with the Registrar.

150. *Repayments of loans made to Societies.*—We have dealt in paragraph 146 above with the question of the periods for which loans should be granted by Central Banks to societies. The principle underlying our proposal was that money repaid by members to their societies should be at once available for use by societies in repaying loans received by them from their Central Bank, after deducting such amounts as may be required for urgent loans to members. These repayments can be estimated and controlled to a large extent by the supervisory staff of the Central Bank or Union, but, as a rule, it would be necessary to prepare actual statements showing payments due and over-

due. On the one hand, a statement of overdue loans payable by societies to Central Banks would be misleading if renewals on reasonable grounds have been granted to the members of societies. On the other hand, the full and punctual repayment of loans due to Central Banks may be equally misleading if they represent funds derived not from the repayments of members but from fresh deposits, as repayments so made, though commendable in themselves, are not inconsistent with laxity in the recovery of debts due by members to societies.

151. *Process for recovery of loans to Societies.*—In cases where a society fails to recover satisfactorily its loans to its members and on this account delays its repayments to the Central Bank, it is the duty of the Central Bank to use all legitimate pressure to recover its own dues. When it has exhausted its own means of recovery, and not until then, it may apply to the Registrar under section 36 of the Act for an enquiry, and if the enquiry shows such a course to be necessary, the Registrar may proceed to liquidate the defaulting society. The procedure laid down in section 36 is specially provided to serve as an alternative to civil litigation, and with this power in reserve we can see no justification for the institution of proceedings by a Central Bank against a society in the Civil Court. At the same time, applications for an enquiry under section 36 should not be used in order to bring official pressure to bear on societies in place of unofficial and when the applications of Central Banks under this section are found to have been unnecessary, the applicant should be freely mulcted in costs by the Registrar.

Reserve Fund

152. *Surplus assets—their employment.*—The actual amounts of the existing reserve funds in Central Banks and their relation to their total liabilities are as shown below. We have already dealt in paragraph 81 above with the existing legal status of the reserve funds of registered societies generally. We have also pointed out (in paragraph 82) the meaning in which we employ the term and the manner in which it is distinguished from fluid resource and have, as regards primary societies, suggested that, given protection in the matter of fluid resource by Central Banks, their surplus assets should be used in the ordinary loan business. We have now to deal with the surplus assets and fluid resources of Central Banks and for the moment assume that there is no Provincial Bank for them in turn to fall back upon. It is of course an axiom that any bank taking deposits must maintain a reserve of cash or readily realizable securities of adequate size to enable it to meet its depositors, and we may dispose of the question as to how the surplus assets of such a bank should be invested by saying that, until such surplus assets exceed the amount which sound policy requires the bank to keep fluid against needs of depositors, they should be invested in liquid securities and held as part or, if sufficient, as the whole of the fluid resource. When the surplus assets exceed the sum fixed as necessary to be kept liquid, the excess may be used in the bank's own business. When on the other hand in a bank's early days the surplus assets are less than the amount required to be kept liquid, the deficiency must obviously be made up and the only sources from which this can be done are share capital or deposits. The share capital and surplus assets provide a margin of safety to a bank's depositors for making good bad debts in the event of liquidation.

(In lakhs of rupees)

Provinces 1	Reserve Fund 2	Percentage of Reserve Fund on total liabilities 3
Madras	.12	.5
Bombay	.02	1.2
Bengal	.36	1.1
Bihar and Orissa	.15	1.8
United Provinces	3.11	5.1
Punjab	.33	.8
Burma	.03	.6
Central Provinces	.20	.8
Assam	.05	2.6
Ajmer	.07	.9
Total ..	**4.44**	**2.1**

153. *Object and character of fluid resource.*—With regard to the maintenance of a certain proportion or amount of a society's funds in a liquid form, the Co-operative Societies Act is silent. It does indeed give power to Local Governments or societies by means of rules or bye laws to regulate the borrowing of a society from non-members, and in some cases bye laws have been made in accordance with sections 30 and 31 for restricting the amount which may be borrowed by societies and thus indirectly limiting the amount of fluid resource which may be required; but beyond empowering societies to make bye laws of their own, no Local Government has made any rules on this subject, and we have not found in any bye laws, except perhaps in those of the Central Provinces, any direct provision regarding the maintenance of fluid resource in co-operative societies. In fact with a few exceptions it may be said that the necessity for the maintenance of such resource, even where obviously essential to sound finance, has been disregarded. The object of the resource is to meet contractions of credit entailing the withdrawals of deposits at due date and a failure to obtain new deposits. Inasmuch as such contractions may ensue from agricultural calamities or trade difficulties involving low prices, they may be accompanied by failures of societies to repay loans and a further call may be made on a bank at such a time for financing the urgent requirements of its affiliated societies. To meet these contingencies the bank must keep a fluid resource which should consist of cash, or of investments in such sound and readily saleable or pledgeable securities as are approved by the Registrar, or of the undrawn portion of a reserve cash credit (see paragraph 133) with a Provincial Bank or with a Joint Stock or Presidency Bank provided that there is a moral certainty that such Joint Stock or Presidency Bank will not withdraw the accommodation without adequate notice; and it would be understood that the fluid resource would not be utilized except in time of financial difficulty.

154. *Circumstances different from those of Joint Stock Banks.*—As regards the figure at which this fluid resource should be fixed, we have had some difficulty in coming to a decision. Some of those whom we have consulted, would leave the matter entirely to the discretion of the societies. Others would fix an empirical percentage on the total liabilities as is not uncommonly done in Joint Stock Banks. It does not seem advisable, however, to leave an important matter of this kind to individual discretion, and unlike Joint Stock Banks co-operative institutions have no data of past experience on which to work out a suitable percentage on the liabilities. It may be taken as a fairly general rule that a well managed Joint Stock Bank will distribute its funds as follows:— 33 per cent. Cash, 33 per cent. Investments, 33 per cent. Loans. In the second item above mentioned there will generally be found securities of an easily realisable nature and in the third item it may hold "trade bills" which are ordinarily re-discountable. Co-operative banks on the other hand must of necessity deal in securities of a very different nature; their loans too are for much longer periods than those of Joint Stock Banks, and repayment may be affected by a number of forces not present in joint stock banking. Moreover, co-operative institutions have not in their present stage of development any agency to re-convert the "paper" of their constituent societies, and the existence of a fundamental defect of this character imposes upon them a grave disadvantage. Whereas commercial banks can, with confidence, look upon a substantial proportion of the paper securities they hold as the equivalent of ready money, Co-operative banks are compelled under present conditions to regard the "paper" of societies as representing capital locked up, and for this reason they are forced, in order to provide fluid resource, to the unsatisfactory and uneconomical expedient of holding what is from the ordinary banking point of view an unreasonably large sum in cash or in gilt-edged securities. As stated above, Joint Stock Banks adopt, as a rule, a percentage of the total deposits as their standard for fluid resource, and it would of course be possible to recommend the adoption of some such percentage, though doubtless a considerably higher one, for Central Banks. A percentage of this kind forms the easiest method of arriving at a working standard of the character required, and such a method may ultimately be found suitable in this country, but it has the effect of penalising the banks which obtain the longest deposits and as we have above noted, there is at present nothing to guide us in determining the percentage which should be fixed. It is impossible to argue from the percentage maintained fluid by Joint Stock Banks owing to the further fact that established Joint Stock Banks are in a comparatively static position, while Co-operative Banks are new and will be for long in India in a condition of rapidly expanding business, in some cases doubling their turnover in a year. The Directors too of Co-operative Banks are, compared with Joint Stock Bankers, inexperienced. In consequence, if Co-operative Banks are to meet such expansion they must be in a position to know how much they can allot to it with due regard to safety. While therefore a Joint Stock Bank can safely pool its incomings from all sources, and use them to meet its various outgoings, we consider it necessary to formulate a definite policy for Co-operative Banks and to divide both incomings and outgoings into two parts—*i.e.*, incomings (*a*) from loan repayments, which can be to a large extent controlled, and (*b*) from

new deposits and the renewals of old deposits, which the Bank cannot control; and outgoings (*a*) of sums invested in new business, which again can be controlled, and (*b*) of sums repaid to depositors, which cannot be controlled. The repayments of loans should then go to repayments of depositors, and new business should be financed from new deposits and from renewals. Inasmuch as agricultural conditions are unstable and in a varying degree lead to temporary failure to repay loans, Co-operative Banks may at any time have to meet withdrawals of deposits without being enabled to do so from loan repayments; and to ensure their ability to do this they must obviously, as long as there is no machinery for raising money on their affiliated societies' pro-notes by discount, maintain adequate fluid resources in cash or gilt-edged easily realisable securities.

155. *Standard of half the maximum requirements for a year suggested.*—After mature consideration we think that it will be best for a Central Bank in all cases to keep in the form of fluid resource a sum sufficient to meet the largest possible demands which may be made on it in the course of a certain period of time corresponding to the average period of a crisis, that is to say, that it should be able to carry on its business and to meet the urgent needs of its affiliated societies during that period even if all the deposits falling due within that period were withdrawn and no fresh deposits or repayments of loans were received. It is, of course, recognized that the condition of affairs thus postulated is one which can seldom occur, but in our present state of knowledge it is impossible even for an intelligent Manager to estimate with any degree of confidence the proportion of deposits likely to be renewed, the amount of fresh deposits probable or the extent to which loans may be repaid, and in order to establish a standard which will be safe, it is necessary to select a standard from which all such elements of uncertainty are eliminated.

The period which the majority of us would suggest for adoption in Central Banks is that of half a year ; that is to say, we should recommend that the banks should, apart from the needs of current and savings accounts with which we have already dealt in paragraphs 127-8, maintain as fluid resources a sum sufficient to meet half the fixed deposits falling due during the ensuing year even if no fresh deposits were received and no repayments of loans made. We have preferred to suggest a standard based on half the deposits due in the next year rather than one based on all deposits due in the next half year, as there are banks in which the bulk of the deposits, either by chance or by special arrangement, fall due at one time of the year, and the adoption of the latter form of standard would lead to violent fluctuations in the amount of resource maintained.

We append a table prepared from a special return showing for the Central and Provincial Banks of each Province the required resources actually available on the 1st January last together with the sums which would be required if the standard fixed was (i) the amount of fixed deposit due in six months; (ii) half the fixed deposits due in one year, and (iii) one-third the total fixed deposits held in the bank. We have not in this statement taken into account the deposits of primary societies for which fluid resources would be kept by the Central Bank but, the sum involved under this head would not be large except in the Punjab.

Figures for Provincial and Central Banks combined

(In lakhs of rupees)

Province	Total of all deposits (excluding genuine debentures) from non-members and members in an individual capacity	Amount of such deposits which fall due for repayment in the half-year 1st January to 1st July 1915, including current accounts	One-half of the fixed deposits which fall due for repayment in 1915 and the whole of current deposits	One-third of the total deposits of every kind excluding genuine debentures	Cash in hand and liquid resources on 1st January 1915 excluding debenture sinking fund. Including undrawn cash credits	Cash in hand and liquid resources on 1st January 1915 excluding debenture sinking fund. Excluding undrawn cash credits	Working capital at end of 1913-14
1	2	3	4	5	6	7	8
Madras	37.35	14.49	14.20	12.45	6.25	3.05	52.19
Bombay	6.98	4.97	3.60	2.32	.18	.18	18.14
Bengal	23.62	5.41	6.04	7.87	2.98	2.14	32.64
Bihar and Orissa ..	10.45	7.85	4.13	3.88	3.22	.29	8.05
United Provinces ..	40.63	11.21	11.85	13.54	8.55	7.09	59.10
Punjab	23.38	9.83	9.67	7.79	3.87	1.37	41.55
Burma	23.82	4.80	4.66	7.94	3.71	2.88	26.57
Central Provinces ..	15.92	4.57	4.98	5.31	10.29	1.78	38.17
Assam	1.50	.24	.56	.50	.17	.17	1.70
Ajmer	5.78	2.45	2.50	1.93	2.16	2.16	7.50
Total ..	**189.43**	**65.82**	**62.19**	**63.53**	**41.38**	**21.11**	**285.61**

We have also examined corresponding figures for a number of individual Central Banks in various parts of India, and the results vary considerably according to local circumstances.

As noted in paragraphs 133-5 above we would class as fluid resource all undrawn cash credits from outside banks, and in view of the uncertainty attaching to such credits as well as of the absence of adequate data from past experience we advocate the adoption for the present of a standard which will sacrifice economy in the interests of perfect safety. If a bank is perfectly secure on a half-year basis it will really be secure in practice for a much longer term, as the actual conditions must necessarily be more favourable to it than those formulated in the calculation of the standard.

156. *Occasions on which fluid resource should be utilized.*—We have suggested elsewhere (paragraph 130) that the policy of a Central Bank should be to arrange to repay deposits from the repayments of loans and only to develop new loan business from new deposits and from the renewals of old ones. When it becomes evident that societies will be unable to make normal repayments of loans, a bank should apply its new deposits to meeting withdrawals of those that mature. It would of course at the same time follow a very cautious policy in the financing of new societies and in making fresh loans to old ones. If and when loan repayments and new deposits finally cease, it must fall back on its fluid resources to meet withdrawals of deposits and to provide such help to societies as seems imperative.

157. *Relations of Central Banks as regards fluid resources to Primary Societies and Provincial Banks.*—In our remarks above we have dealt for the most part with Central Banks as a separate entity, apart from their obligations to primary societies to which we have referred in paragraph 82 above and apart from the obligations of Provincial to Central Banks. As regards the former it will suffice here to say that we look to the Central Bank to arrange with its societies to secure their deposits either recouping itself by the interest it charges on loans or by charging a special commission. A Central Bank must accordingly have a sufficient fluid resource to meet the demands of its own depositors and of the depositors of the societies which are affiliated to it and have entered into arrangements with it as well as the demands of affiliated societies for urgent loans. For this purpose Central Banks have their own fluid resources to rely on and any cash credit which they may be able to secure from a Commercial Bank or a Provincial Bank, where such exists.

158. *Action to be taken.*—It has been urged before us that it is more important for Central Banks to build up a large reserve fund than to provide for a fluid resource at any rate in their early days, but we are unable to accept this view and we hold that Central Banks should work on sound lines from the beginning. We fully recognise that the requirements which we have above laid down, especially in so far as they entail the maintenance of a fluid resource sufficient to meet half the deposits for the ensuing year, involve considerable changes in the administration of Central Banks, as in the absence of arrangements for rediscounting the pro-notes of the movement, these will in many cases be forced to raise the margin of interest between their borrowings and lendings and will need at the same time to obtain deposits on longer terms than is now customary, but we consider that it is well to undertake the sacrifices required by such changes at the present stage of development rather than to defer them to a time when the contraction of margins will render them more difficult. We do not propose that the Central Banks while building up their fluid resources and their surplus assets should deprive their shareholders of a reasonable dividend, but it will be necessary for them to face the fact that until they have met the requirements we have above recommended, they cannot command full confidence, and a steady effort should be made to reach the standard recommended by us.

The standard of resource should be subject to readjustment quarterly and the progress made by the various banks in meeting the suggested requirements can be checked by the perusal of the quarterly statements which we have recommended in paragraph 165 below.

Superfluous Funds

159. *Superfluous Funds.*—The question of the profitable utilization of superfluous funds is not yet very pressing but may become so later on. Wherever the question is one of substantial importance, it may be presumed that a Provincial Bank has been or will shortly be constituted, and it will suffice in this place to say that when Central Banks find themselves in possession of superfluous money they should make a regular practice of passing it on for deposit to the Provincial Bank. We shall deal later with the relation of the Provincial Bank to such funds as they themselves may hold in excess of requirements.

Division of Profits

160. *Interest earned but not paid.*—We have found cases where Central Banks have shown large net profits and consequently declared high dividends by reckoning as profits considerable sums of interest due from societies but not yet paid. In cases where the accrued interest is overdue and has not been paid by the debtor society, we have no doubt that this practice is wrong. Where, however, the interest has been earned but is not yet due for payment (as for instance in cases where it is payable at the end of a year of which only 9 months had run at the time when the balance sheet was prepared) the propriety of the practice is less open to question. In Joint Stock Banks such earned interest is, we believe, usually counted as profit, provided that it is fully secured. But in the case of Central Banks, Societies might conceivably default in the payment of interest year after year and in such cases it would be wrong to treat interest earned as available for dividend. It is in our opinion essential to show separately in the Profit and Loss Statement for the information of shareholders the items interest (*a*) due and realised, and (*b*) interest earned but not due. Similar information should of course be furnished on the other side of the statement as regards interest payable by Central Banks to other agencies.

161. *Special Funds.*—In dividing profits sums are occasionally set apart for (1) Dividend Equalization Funds, (2) Contingent Funds, and (3) Building Funds.

As regards the first we gather from section 33 of the Act that something in the shape of a Dividend Equalization Fund seems to have been contemplated by the law and we see no objection to the constitution of such a fund. In fixing the limit for dividends, however, the Local Government would be justified in taking into consideration the existence or absence of this arrangement for equalizing the return to shareholders.

Contingent or Bad Debt Funds are occasionally found in Central Banks and we think that when as a rule only 25 per cent. of the net profits are carried to Reserve, the provision of such an additional fund is desirable. But we would emphasize the fact that the allotment of 25 per cent. of the profits to Reserve represents the legal minimum only, and if a substantial amount in excess of this minimum is placed to Reserve every year it would generally be unnecessary to make any separate provision except for such bad debts as are really in sight.

With regard to Building Funds we may note that in most places we have found the offices of Central Banks rather humbly housed, usually in rented premises, and that in order to provide new buildings of a suitable character a separate building fund is not infrequently in course of formation. We recognise that the possession of a good office building is not only a convenience but also a good advertisement for a Bank; but such a building should not be too expensive or pretentious; and in any case it is well not to devote any part of the profits to a building fund until substantial progress has been made in providing a fluid resource. We would add that in cases where a bank's office is intended to serve also as an agricultural depot or for some cognate object, Government or Local Funds may suitably make a contribution towards its cost.

Audit and Supervision

162. *Audit of Central Banks.*—In dealing with Primary Societies we noted that audit included certain functions beyond the mere examination and verification of the

account books, and we advocated that all Primary Societies should be subject to a three-fold examination classified by us as (*a*) the actual audit of the accounts, (*b*) additional enquiries referred to in paragraph 91, and (*c*) the supervision of societies by a special supervisory staff. We believe that it is equally necessary to apply these three processes to Central Banks, but that in their case the processes (*a*) and (*b*) can be usefully carried out by separate agencies. Provided that the second and third processes are effectively performed by the Registrar and his staff, it is open to the Registrar to entrust the first to one of the Government staff or to some outside agency, such as that of Incorporated or Chartered Accountants specially authorised on this behalf. In the case of larger Banks the audit of the accounts involves much labour and takes much time and there are sometimes advantages in employing outside agencies both to improve the system of book-keeping and to satisfy the outside public. But as a rule outside agencies are more expensive than a Government staff and owing to their lack of special knowledge of co-operative banking are not always equally efficient. Whatever system be adopted, we are clearly of opinion that Central Banks should bear the expense of their own audit and arrangements should be made for the payment thereof in such way as may be locally convenient. The audit notes and any orders which the Registrar may think fit to issue on them should of course be communicated to the Bank. We would also note—as we have found that this obvious duty has been in some places ignored—that if assets have been pledged against a loan or cash credit the fact must be clearly stated in the balance sheet.

163. *Supervision of Central Banks.*—As indicated above, the examination of Banks, as apart from the audit of accounts, and the supervision of their work forms part of the duties of the Registrar and his staff.

164. *Publication of Balance Sheets.*—There is considerable diversity of practice among Central Banks with regard to the preparation and distribution of balance sheets. In some cases, they are sent to the Registrar only and in others they are printed and published in newspapers or the Government Gazette. Our view is that every shareholder should—and when this does not entail too much expense every depositor might—receive a copy of the balance sheet and that a copy should be kept available for inspection in the Bank's office in the same manner as is prescribed in the Companies Act. The balance sheet should show the name and qualification of the auditor and include a copy of his certificate of the correctness of the accounts. It should also contain the names of the Directors together with a clear indication that the Bank is registered under Act II of 1912. The published balance sheets should in our opinion be drawn up in greater detail than is usual at present, and in greater detail than is required for the annual returns. They should in all cases show separately the share capital issued, subscribed, and called up. Details should be given according to circumstances of the loans and deposits given and received, current and savings deposits being entered separately from fixed deposits. Outside investments should be individually specified and the interest due on deposits should be indicated separately from the principal of the deposits themselves. In order moreover to conform with business usage the liabilities should be exhibited on the left and the assets on the right side of the statement.

165. *Annual and Quarterly Returns.*—As mentioned in paragraph 99 above we have suggested to the Government of India that Central Banks should be required to

prepare, as Annual Returns, the three usual account statements, *viz.*, the statements of Receipts and Disbursements, Profit and Loss, and Assets and Liabilities. The last while giving substantially the same information, might be in a less detailed form than the balance sheet supplied to members. In addition to the three annual statements, we think it advisable, in order to keep Central Banks alive to the facts of their own position, to prescribe the submission of a quarterly statement showing in some detail the state of their finances more especially with reference to their liabilities to outside creditors and their progress in the formation of a fluid resource. We have submitted separately to the Government of India our suggestions with regard to the form which this statement should take. We would only add that in our opinion it might with advantage be published in the Gazette of the Local Government.

CHAPTER IV

PROVINCIAL BANKS

The present position

166. *Need for a bank at the apex in each province.*—We have already expressed the view that the co-operative edifice in each province should ordinarily consist of primary societies federated into Unions when local conditions permit of the introduction of the Union system, and that these primary societies, whether federated into Unions or not, should be financed and supervised by Central Banks covering an area and serving a number of societies which are not too large to permit of efficient supervision and are yet sufficiently large to enable the bank to employ a reasonable amount of working capital. The extent of the supervisory duties of the Central Bank would of course vary according to the existence or non-existence in the province of a Union system and the efficiency of that system when it existed. Although this edifice affords adequate additional assistance to the Registrar in the matter of supervision and audit of primary societies, it is by no means complete as regards finance. In the absence of an apex controlling institution Central Banks have to make such arrangements as they can, either by circularising each other or through the Registrar, to lend out their surplus funds or to borrow to meet their needs. This system is inefficient and uneconomical when the work is done by the Central Banks themselves and, if it is carried out by the Registrar, entails a substantial addition to his already onerous duties. Moreover uncontrolled interlending among Central Banks involves an interlocking of liabilities which may well lead to trouble. In some provinces too the Central Banks are unable unaided to secure locally sufficient funds to meet their needs, and these can best be provided by a bank capable of attracting deposits from the richer urban classes and more suitably equipped to serve as a channel between the co-operative movement and Presidency or Joint Stock Banks. It is therefore in our opinion necessary to provide in each of the major provinces an apex bank which will co-ordinate and control the working of Central Banks, forecast and arrange for the provincial requirements, as a whole, and be the financial co-operative centre of the province.

An apex bank of this nature should have as its express object the direction of provincial finance by the control and support of Central Banks. Central Banks should be prohibited from dealing with each other or with Presidency or Joint Stock Banks except through its medium, while it should itself be obliged to confine its dealings with co-operative institutions to Central Banks and leave to them the work of dealing with societies.

167. *Existing systems.*—The present organisation throughout India is incomplete in this respect. In Madras, the Central Urban Bank has begun to undertake the functions of accepting surpluses from and lending money to Central Banks, but it is not in a position to exercise any control over these banks. As a matter of fact, 27/28ths of its loans, which are approximately one-half of the total loans in the Province, have been made to primary societies and it can in no way be said to be in charge of the direction of the

provincial finance. The pre-eminent position in the Bombay Presidency of the Bombay Central Bank is due to the fact that 8/9ths of the loans to societies in the Province have been made by it, but the three Central Banks in the Province are in no way under its direction. In Burma, over 4/5ths of the loans to societies have been made by the Bank of Mandalay, and that Bank also supports the two Central Banks in the Province. In Bihar and the Central Provinces Provincial Banks exist which are constituted on the lines suggested at the end of the previous paragraph, but that in Bihar has only just been started, while that in the Central Provinces is as yet on a comparatively small scale. In no other Province is there any institution which attempts in any way to fulfil the duties of an apex bank. In view of the fact that the Central Banks of Madras, Bombay and Mandalay cannot be appropriately dealt with in the chapter on Central Banks, we have considered it better to deal with them here, but in view of the diverse character of these three Banks and the small extent at present of the scope of the Provincial Banks of Bihar and the Central Provinces, we do not think that any useful purpose will be served by conclusions drawn from an examination of the existing state of affairs in these Banks. It will be sufficient to give in their case the same figures as regards their capital, its sources and employment as have been given in the case of Central Banks, and to deal generally with the subject of Provincial Banks, stating what in our opinion are the main essentials in the formation and working of such banks.

168. *Financial details of existing system.*—The table below shows the working capital as it stood on January 1st, 1915, of the five banks mentioned and the sources from which this capital was obtained.

(In lakhs of rupees)

—	Bombay	Madras	Central Provinces	Burma	Bihar and Orissa	Total
1	2	3	4	5	6	7
Shares	3.84	2.00	2.93	1.92	.52	11.21
Deposits	12.51*	23.34	7.30	21.50	1.97	66.62
Loans	..	2.68	1.48	.16	1.14	5.46
Reserve Fund	.18†	.76	.20	.47	..	.61
Total ..	16.53	28.78	11.91	24.05	3.63	84.90

* Including debentures. † Including sinking fund.

As regards share capital, only six societies in Bombay have become shareholders, though an opportunity was afforded to them to subscribe to shares if they wished to do so. In Madras, all the shares are held by individuals, and shareholding by societies is not contemplated in the bye laws. In the Central Provinces, too, practically all the shareholders are individuals, though some directors of Central Banks happen to hold shares. In Burma and Bihar, the number of individual shareholders is limited and the representatives of societies and Unions have a preponderating voting power both in the General Meeting and on the Directorate.

The deposits in these banks consist partly of sums received direct from individual members or the public and partly of funds passed on by Central Banks and societies. The amounts actually held from each of these sources on January 1st, 1915, were as shown below.

(In lakhs of rupees)

Province	Deposits	
	From individuals	From Societies and Central Banks
1	2	3
Madras	20.89	2.45
Bombay	11.69	.82
Burma	20.60	.90
Bihar and Orissa	1.83	.14
Central Provinces	6.59	.71
Total ..	61.60	5.02

The loans have been taken from Presidency and Joint Stock Banks and represent the portion owed on 1st January 1915 of cash credits which these banks have granted. The Banks of Madras and Mandalay and the Provincial Bank of Bihar have been granted cash credits of 5, 1 and 4 lakhs respectively by Presidency Banks. The Provincial Bank of the Central Provinces has been granted a cash credit of ten lakhs and the Bank of Mandalay one of thirty thousand rupees by Joint Stock Banks.

The amount of liquid assets held by these banks is as follows:—

(In lakhs of rupees)

—	Cash	Government paper	Other securities	Undrawn cash credits
1	2	3	4	5
Madras	.13	1.40	.76	2.31
Bombay	.12	.09*	..	..
Burma	..	2.84	..	.83
Bihar	..	..	..	2.87
Central Provinces	..	.20	..	8.51

* Debenture Sinking Fund.

Future requirements

169. *Suggested system.*—As regards the type of Provincial Bank which we would recommend in provinces where no such bank exists and to which we would like to see the present leading institutions conform in provinces where there are institutions capable, if suitably modified, of taking up the position of Provincial Bank, we would preface our remarks by stating that in our opinion co-operative interests in Burma are adequately served by the existing arrangements. If a Union system on lines similar to those in Burma could be introduced in Bombay, the Central Bank there could, like the Bank of Mandalay, suitably be entrusted with the direction of provincial finance, provided its

constitution could be modified and reconciled to a greater degree with co-operative interests. In all the other provinces the co-operative edifice is constructed on a system of Central Banks and the same principles apply to apex banks in all these provinces. We have dealt below with the points regarding such apex banks which seem to require special notice, and we would premise that such banks should not be started on an extravagant or unnecessarily large scale. Their capital must of course be adequate to meet the needs of co-operative institutions and provide for expansion to meet their growing requirements, but it should not at first be so excessive as to lead to loans being forced on societies beyond their legitimate requirements in order to make the bank pay its way.

It would in our opinion be a sound rule to insist that the share capital *plus* the accumulated reserve fund shall form a fraction of not less than one-tenth of the total funds borrowed from outside, deposits from members and member societies as well as from non-members being included under the latter head.

170. *Share Capital and class of shareholders.*—It is in our opinion essential that co-operative institutions should be represented in Provincial Banks. It is not however necessary that they should from the beginning be vested with full control. Owing to their distance from the Provincial centre, they cannot conveniently send representatives to attend every meeting. On the other hand, the individual men of business, who take shares, usually live at or near headquarters, and are therefore able to be present at meetings regularly. In addition to this they form especially at first, a very important element in the Bank, as they bring to its management the necessary commercial skill and ability without which it would be difficult to raise sufficient capital from the public. At the same time, it is obvious that the relations of the Provincial Bank to its constituency must be carefully defined, for, whatever system is adopted, no device can permanently prevent the ultimate divergence of the interests of the individuals who supply funds and the societies which borrow them. Although therefore in starting a Provincial Bank we are not opposed to the concession of a preponderating influence to individual shareholders, representing the business element, we think that its constitution should be so framed as to give to affiliated co-operative institutions an opportunity at no distant date of securing a majority of votes at the general meeting.

171. *Co-operative element less necessary on the Directorate.*—If a Provincial Bank is so constituted, it is we think of comparatively small importance whether the co-operative element has a dominating voice on the Directorate or not. The management of a Provincial Bank requires more expert knowledge and experience than that of a Central Bank and it is permissible, and often desirable, that the management should be mainly in the hands of business men. The representatives of societies are seldom capable of taking an effective part in the management of a Bank of this class. But though the detailed administration need not be constantly controlled by them, the ultimate decision, as exercised at the general meeting, should under the bye laws rest with them, and when they find that the Directors are mismanaging the Bank or exploiting co-operation for the advantage of the individual shareholders, the representatives of co-operative institutions should be in a position to intervene and to reconstitute the management.

172. *Ordinary and preference shares. Reserve liability.*—As in the case of Central Banks we think that it is ordinarily simpler to issue one class of shares only but if this

plan makes it difficult to raise adequate share capital, there is no objection to allowing the shares issued to the public to be treated as preference shares. The objections which we urged in the case of Central Banks to attaching reserve liability to preference shares held by individuals apply with almost equal force in the case of Provincial Banks, and we would recommend that all such shares should be fully paid up. The same necessity does not exist in the case of shares held by co-operative institutions. It is legitimate to require only ¼ or ½ of their face value to be paid up. The number of such co-operative shares should in any case be unlimited and their growth should be stimulated by insisting on the holding of shares proportionate to borrowings.

173. *Relations of Provincial Bank to Central Banks and Societies.*—All Central Banks should be induced by every legitimate means to become affiliated to the Provincial Bank and the Provincial Bank should grant no loans to societies capable of being affiliated to a Central Bank. When primary societies, owing to their formation in a new district or for some other reason, have no convenient Central Bank affiliated to the Provincial Bank to deal with, the latter may properly grant them loans direct until they can be brought under an affiliated Central Bank, and should in such a case exercise over them the powers of a Central Bank. If in any instance a Central Bank declined to become affiliated to the Provincial Bank, it would be required to arrange independently for its own finances, and the fact that it was not affiliated would probably have a prejudicial effect on its credit. After becoming affiliated to a Provincial Bank, a Central Bank cannot of course claim loans from it as of right, and would have its credit reduced or stopped in case of disobedience to the rules of the Provincial Bank or of bad management. If such action was still ineffective in bringing the peccant Bank to reason (and we believe that it would seldom be without effect) then it remains for the Provincial Bank to disaffiliate it in some public way, cancelling and refunding if necessary the shares held by it, and we believe that as a result of this discipline the Central Bank would find its credit gone and would either have to reform its methods or to suspend operations. We would add that in assessing the credit of Central Banks, a Provincial Bank would be guided by ordinary banking principles and would entertain such staff for this purpose as may be necessary.

174. *Period for deposits.*—Provincial Banks will no doubt have occasion more frequently than Central Banks to raise short-term deposits to meet particular needs, but, as in the case of Central Banks, efforts should usually be made to obtain deposits fixed for the longest possible terms. The money is required for loans to Central Banks and it would only embarrass them if it was granted for shorter terms than were required by the societies borrowing from them. Under special arrangements laid down in its agreement with the Secretary of State, the Bombay Central Co-operative Bank has to maintain a fluid cover amounting to 40 per cent. of its deposits at call, but, conditions in Bombay are special, and we think that in other provinces deposits held at call, including deposits so held from Central Banks, should be covered by fluid resources amounting to at least 75 per cent. of their total amount. We think, following the practice at present obtaining in Joint Stock Banks, and for the same reasons as have already been given in the case of Central Banks, no prohibitions should be placed on the opening under proper restrictions of a savings deposits department in a Provincial Bank.

175. *Loans.*—Cash credits given by Presidency and Joint Stock Banks are exceedingly useful but the terms on which they are enjoyed necessarily make them a rather uncertain resource, and we think that Provincial Banks while taking care to remain in touch with outside financing agencies will be well advised to avoid excessive reliance on this source of supply. Their efforts should be directed towards the gradual accumulation of local and outside deposits, and the accumulation of considerable surplus assets and good liquid securities, in order that dependence on outside agencies may be diminished.

The extent to which an outside bank dealing with a Provincial Bank should be authorised to examine its accounts, records, and general administration should be determined by the arrangements made separately in each case; but ordinarily there should be no reason for discouraging such investigation.

176. *Fluid Resource.*—As regards fluid resource we think that the same principles should be kept in view as have been laid down in the case of Central Banks except that it will suffice to ensure that the fluid resource should be sufficient in amount to cover one-third only of the possible liabilities of the Bank falling due in the course of the ensuing year. The standard adopted is fixed on a slightly lower scale than in a Central Bank, because the risks are spread over a wider area and a larger number of institutions, thereby reducing the chance of sudden resort to the fluid resource from all quarters at once, and because the concentration of fluid resource in one bank and under one control makes it possible to do more with the sum available. The liabilities include not only all demands against the Provincial Bank itself, but also, in cases where it undertakes to provide cover for Central Banks, the total possible demands within the period stated payable by Central Banks, and their affiliated societies. In the absence of a Provincial Bank it is the business of a Central Bank to arrange for its own fluid resource but where a Provincial Bank is available, it is also open to a Central Bank either to deposit its fluid resource with it or to make arrangements with the Provincial Bank whereby that bank in return for being allowed to charge a commission or higher rate of interest undertakes to maintain sufficient fluid resource to cover the liabilities of the Central Bank. When a Central Bank maintains its own separate fluid resource, it is a matter of indifference whether it retains it in its own hands or places it in the keeping of the Provincial Bank, but the latter course would probably secure that the money is handled in a more business-like way. In buying gilt-edged securities, to be reserved for the credit of a Central Bank, the Provincial Bank would probably have less difficulty over the necessary formalities and might be in a position to carry through the transaction more cheaply. When it goes further and undertakes the responsibility of providing fluid resource to meet the needs of Central Banks, it can by concentrating its resources use them more effectively and economically, devoting a large portion of its available funds to the support of a bank when need arises and curtailing the reserve maintained for more solidly situated banks. There is undoubted advantage in consolidating a reserve of this kind in one place and we have little doubt that, when Provincial Banks are firmly established, it will be found convenient to concentrate the whole fluid resource at the provincial apex of the co-operative system.

177. *Class of business.*—The main business of a Provincial Bank should be to co-ordinate and control the finances of Central Banks, utilising their surpluses and supplementing their deficiencies, and we think that, for the present and for some time

to come, Provincial Banks should be forbidden to embark in business outside the co-operative movement except in so far as it may be found necessary to lend or deposit spare funds for short periods in outside institutions. As time goes on, and the management of Provincial Banks gains in experience while the margin on which they work is reduced, there may arise some justification for undertaking general banking business; but at the present stage we think this inadvisable.

178. *Loans to outside institutions.*—The disposal of spare funds on short loans to outside institutions though at present of little account, is a matter of great potential importance. Good interest can be obtained for money in Upper India, Bombay, Madras and (though for a shorter term) in Burma between the months of October and April or May, when there is in normal years a steady demand for money for the movement of crops and for the import trade. In Bengal, the conditions of the jute trade cause the keenest demand for money between July and October, but elsewhere it is in the winter that short loans can most profitably be made to concerns outside the co-operative movement. Repayments are made by societies within the three months succeeding the various harvests, and in consequence Central Banks tend to have a plethora of funds only towards the end of the season in which the local trade is ready to give high rates for money. Advantage should therefore be taken of such variations as exist in the periods of demand in the different provinces. As long as Co-operative Banks look to temporary investment of such funds in Joint Stock Banks within the Province they will fail to get profitable rates and their money will be less useful to the trading community. The maximum benefit to co-operators and traders will result when inter-provincial business has been so developed that the plethora in one province can be lent to Joint Stock Banks in another at the beginning of the active trade season to finance the movement of some crop. The sums repaid by agricultural co-operative societies are often not required again for loans for 2 or 3 months and the ability to obtain remunerative rates on such sums for this period is an important factor in co-operative banking.

The question of inter-provincial lending is one that will certainly acquire more importance as the movement develops, but such transactions are subject to difficulties similar to those which ordinarily prevent Joint Stock Banks from lending in areas where they have no branches, and a Provincial Bank may legitimately be reluctant to sanction them, unless the borrowing bank has been long enough in existence to prove its worthiness of credit and the lending bank has full opportunities of itself examining and verifying the financial position of the borrower.

179. *Audit and Supervision of Provincial Banks.*—In the Provincial Bank, as in Central Banks, there should in our opinion be a separate audit of accounts as well as more general supervision and enquiry into its management, and this audit should be carried out by a Chartered or Incorporated Accountant, authorised by the Registrar. The Bank would be at liberty of course, if it wished it, to arrange for a supplementary audit under its own auspices. In either case the whole expense of the audit should be borne by it. The further duties of general supervision and enquiry would appertain to the Registrar and his staff, and would be carried out for the present at Government expense.

180. *Returns due from Provincial Banks.*—The returns required from a Provincial Bank would be the same in number and in form as those required from Central Banks.

It should be understood that copies of all returns furnished by Central Banks to the Registrar should be sent to the Provincial Bank, in order to keep it acquainted with any changes that occur in their general position. The Provincial Bank, like the Central Banks, should publish detailed annual accounts and a Balance Sheet and should distribute copies to all shareholders and, if possible, to all depositors.

CHAPTER V

PUBLIC AID

Concessions

181. *Concessions under the Act.*—Certain special privileges have been conferred on Co-operative Societies under the Act itself, which are partly judicial and partly fiscal. Under the first category may be included the (somewhat illusory) prior claim to enforce recovery of certain dues (section 19), the exemption of the shares or interest of members from attachment (section 21), the admission of certified copies of accounts as evidence (section 26) and the exclusive use of the term "Co-operative" (section 47). Under the latter fall certain exemptions from fees payable in connection with the Registration and Stamp Acts and from income-tax, granted by notifications of the Government of India under section 28. We regard all these concessions as fair and reasonable, and the only suggestions we have to make regarding them are (*a*) that when the staff of Sub-Registrars is remunerated from the fees earned by them, the loss to them occasioned by the exemption of Co-operative Societies from registration fees should be made up to them from Government in order that they may not be reluctant to dispose of work brought by societies, and (*b*) that the exemption from stamp duty of the cheques of individual members having current accounts with Co-operative Banks does not appear to us necessary and the sum involved, though now insignificant, may some day rise to a figure which will make the reconsideration of the exemption advisable.

182. *Departmental concessions.*—Further concessions of a departmental character are also enjoyed by Co-operative Societies such as the use of Remittance Transfer Receipts at par for remittances between societies and special facilities for the withdrawal of funds from the Post Office Savings Bank. The question of the remittance and custody of funds is one that has been differently treated in different provinces, and we think that the grant of reasonable facilities to Co-operative Societies and Banks under these heads is a justifiable and necessary concession. As regards the Post Office Savings Bank we have already referred in paragraph 58 to certain concessions current in Bombay which we think might be extended elsewhere. We may also note that in view of the high commission payable for the transmission of large sums by money order, the Registrar in Bombay has been permitted by the Local Government to make to societies at the end of the year a refund of 75 per cent. of the amount actually disbursed by them as money order commission.

Government Servants and District Officers

183. *Existing rules regarding participation of Government Servants.*—The general rules of Government regulating the conduct of its servants in relation to Co-operative Societies are fairly elastic. In general any Government Servant may take shares or make deposits in a co-operative institution except in case of (1) members of the Indian Civil Service who may only do so outside their own province and (2) members of the Provincial

and subordinate Civil Services who may do so with special permission but may be precluded from serving in the district in which their investment has been made. Local Governments are at liberty to modify these rules and have in some instances availed themselves of this power. In Burma for instance any Government Servant may take shares or make deposits in the Provincial Bank, and in Madras, the Central Provinces and Bihar and Orissa, there are no restrictions on investments or deposits in Central Banks or the Provincial Bank.

184. *Principles to be followed.*—Circumstances differ in different tracts and we recognise that some diversity of practice should be permitted. Our general view is that if provision is made to minimise undue official influence, the movement should not be deprived of the moral and financial support which Government Servants give it. In Europe there are few or no restrictions on the dealings of Government Servants with Co-operative Societies, and if precautions are taken to see that all proceedings are public and that societies are thoroughly supervised, the need for special restrictions is greatly diminished. Tested by these considerations the existing rules appear on the whole to be well devised and leave only a few points on which we have suggestions to offer.

Any restrictions which we advocate should of course apply only to Government servants on the active list and in no case to any retired officer of Government.

185. (1) *As regards deposits.*—Speaking firstly of deposits, we would remove all restrictions on the power of any Government servant to deposit in a Provincial Bank. Members of the Indian Civil Service should not be prohibited from depositing in Central or Provincial Banks in their own Province provided that when transferred to a district in a Central Bank of which they hold such a deposit they should report the circumstances to their official superior and withdraw the deposit as soon as opportunity offers. Similarly members of the Provincial and Subordinate Civil Services should not, we think, be required to obtain permission for depositing in a Provincial Bank or for depositing in any Central Bank outside their own district or other local area.

186. (2) *As regards membership.*—As regards membership and the taking of shares in societies, we would, while retaining the existing rules extend generally to all Government servants the power to take shares or become members of non-agricultural societies intended for Government servants only, as we think it advisable that the higher grades of Government servants should not be debarred from supporting such societies and taking an active part in their management. We would extend a similar exemption to all Government servants in respect of any class of non-agricultural primary society of which they are otherwise qualified to become members, but would not allow members of the Indian Civil Service or Provincial or Subordinate Civil Services to borrow money from such societies.

187. (3) *As regards management.*—With regard to the participation of Government servants in the management of Societies and Banks, reference is sometimes made to rule 14 of the general Government Servants Conduct Rules which forbids Government servants to undertake without permission any employment other than their public duties. But we think that the part taken by them in the management of Co-operative Societies should be determined by special considerations rather than by a comprehensive disqualification

of this kind. We have already for instance stated in paragraph 33 that we consider a Village Accountant often unsuitable for the post of Secretary in an Agricultural Society, but saw no objection to the employment of a Village Schoolmaster if his own department consented. In some parts of the country there may be no objection to allowing either or both of these Village Officers to participate in the management of a society, but elsewhere difficulties have been felt, and we would leave the matter for local decision. Officers of gazetted rank are under No. 13 of the Government Servants Conduct Rules allowed to partake in the management of co-operative institutions if they obtain the general or special sanction of the Local Government. Our view as regards such Officers is that whatever orders may be issued in respect of Officers outside the Indian, Provincial and Subordinate Civil Services, the gazetted officers of those services should, subject to the exceptions suggested by us in paragraphs 186 and 190, be prohibited from accepting, without special permission, any post, whether honorary or not, on the Managing Committee or executive staff of any Co-operative Society or Bank.

188. *The relation of District Officers to the movement.*—In their resolution of April 29th, 1904, the Government of India laid down that while the immediate charge of societies once started should devolve on the Registrar, District Officers should help in initiating the movement, and after societies had been formed should give them their active sympathy and support. In their resolution of 1914 again they pointed out in some detail that while it was no part of the duty of a District Officer to intervene in the internal administration of societies, it was important that he should recognise that they constituted a new factor in the administration which could not be disregarded, and that it was his business to keep in the closest touch with them, allowing them neither to languish for want of sympathy or develop in undersirable directions through want of vigilance. A similar line was taken by the Bengal Government in a circular issued in August 1911, in which it was stated that, while the Collector should not inspect or control or personally organise societies, he should acquire knowledge of the movement and evince his willingness to help it forward, more particularly in such matters as the recruitment of Honorary Organizers. The instructions thus given as regards the general attitude of the District Officer to co-operation are in our opinion clear and consistent, and we venture to express our entire agreement with them. But there has been some difficulty in defining the precise action which the District Officer should take in order to conform with the policy they express.

189. *Devolution of powers of Registrar on Collector not recommended.*—It has been proposed from time to time that the Collector and his subordinate officers should be given some of the powers vesting under the Act in the Registrar, and this view so far as Bengal is concerned has received the support of the recent Committee on the District Administration of that Presidency. That Committee considered that Collectors in Bengal had been practically excluded from the scheme of co-operative administration, and indicated its apprehension that the existing policy might lead to " over-departmentalising in the effort to de-officialize." We recognise the danger of allowing societies to be so exclusively under departmental supervision as to place them outside the sphere of the District Officer's duties ; but we venture with all respect for the opinion of that Committee to hold that the remedy does not lie in the devolution of any of the powers of the Registrar on the Collector and his staff. The duties imposed on the Registrar by law are mainly of a technical character and unsuited for delegation to district officers

who are burdened with many other functions. Any officers, moreover, to whom such powers are delegated, must in the exercise of them be subordinate to the Registrar and would be in the unsatisfactory position of serving two masters. The responsibility for the Registrar's duties should not be divided and we would deprecate the delegation of any part of them to district officials.

190. *Relation of District Officers to the management of Central Banks.*—The Co-operative Societies Act empowers a Collector to call on the Registrar to make an enquiry into the condition of a society and entitles him to have access to all the books of a society and to call for any information regarding its working that he may require. No other definite functions have been assigned to him by the Act, and the duties there allotted to him might be thought to be rather those of an inquisitor than of a friend. It was suggested in the Bengal circular above alluded to that the Collector might be placed *ex officio* on the Managing Committee of a Central Bank in his District and we find that in actual practice the Collector and Sub-Divisional Officer often occupy such a position. In Madras, Bombay, the Central Provinces and Burma this arrangement does not prevail, but in the other Provinces the Collector or Sub-Divisional Officer (where one exists) is not infrequently found acting as chairman of a Central Bank with or without a place on the Managing Committee, and we have been much impressed with the excellent effect which such a system has had both in maintaining the efficiency of the Central Banks themselves and in bringing District Officers into touch with the movement and the people, especially in those parts of India under permanent settlement in which other opportunities for friendly intercourse are limited. When, however, it is contended that a District Officer or Sub-Divisional Officer should always *ex officio* be chairman or at least a member of the Managing Committee of the Central Bank at his headquarter town, we are unable to give such a proposal our concurrence. It may be urged that the movement in India owes its origin entirely to Government and is clearly dependent on State support, but we cannot lose sight of the fact that for its ultimate success we must look to independent effort. With the Collector as *ex officio* chairman or on the Board of Management, it is impossible not to apprehend occasional apathy and occasional rashness on his part, while his presence as an integral part of the managing body may not infrequently tend to overshadow the part taken in the administration of the Bank by private individuals. We have, it is true, come across little or no evidence in practice of the defects to which we have admitted that the arrangement is liable, but we do not feel that we can ignore the possibility of their occurrence from time to time if the system were universally adopted. Our feeling is that the efficiency of Central Banks will ordinarily be increased if the Collector or Sub-Divisional Officer is associated with them, but that we should prefer such association to take a form which would not impede their independent development or entail harm to the movement in cases where the officer is sceptical, indifferent, or rash. Although therefore we see no objection to the Collector or Sub-Divisional Officer acting as Chairman or Member of the Managing Committee of a Central Bank in individual cases, especially in provinces where there are few other means of intercourse with the people, we do not advocate that they should hold these positions *ex officio* or as an invariable rule. The district officer should however in our opinion always have a formal right to attend meetings of the shareholders or Directors of a Central Bank and it is for the Local Government to decide in what manner this arrangement can be best carried out. He would also be the most suitable

person to preside at a district conference. In that character and in any position which Government in accordance with our suggestions above may assign to him on the Central Bank, he would occupy in our opinion a position which represents correctly his general relation to the movement. He would stand as a well-wisher equipped with the requisite knowledge and sympathy, but need not necessarily have any intimate connection with the management or assume direct responsibility.

Registrar, Development Commissioner, Advisory Officer

191. *The appointment of Registrar to be made permanent.*—The progress of the co-operative movement in India may be said to be due almost entirely to the fact that in every province a special officer of Government has been appointed to guide and control it. In European countries we find that such officers are appointed in some cases but that their duties are mainly of a formal character. In other cases the movement is in the charge of no individual representative of Government but Government officers in several departments are expected to give it their support and countenance. In the creation of a Registrar not only to fulfil the formal requirements of the Act but also to guide and control the whole movement, the Indian Government occupies a unique position and one which we think has been of great, and could be made of still greater, utility to the movement. When the appointment was first created in 1905, the retention of a Government officer as Registrar was looked on as a more or less temporary measure and it was hoped that as experience was gained and societies became more able to stand alone, the fostering care of the Registrar would gradually be found less necessary, until ultimately he would be able to confine himself to his statutory functions only. Even now the appointments in the various provinces are on a temporary footing and their further continuance will come up for consideration in 1916, but from what we have said throughout this report and in view of the duties which our recommendations impose on the Registrar, it will be understood that we cannot subscribe either to the disappearance of the post or to the transference of its functions to non-official agency. Nor can we contemplate the continued development of Co-operation in India on any other condition than the permanent maintenance of an efficient and adequate staff of Registrars.

192. *Duties of the Registrar.*—Under the Act it is the duty of the Registrar to receive and enquire into applications for registration; to register the bye laws of societies and amendments to them; to audit the accounts or cause them to be audited; to make a valuation of the assets and liabilities of societies, and prepare a list of overdue loans; to see that the Act, rules and bye laws are observed; to make special inspections when called upon to do so; to dissolve or cancel societies and to carry out their liquidation. In order to fulfil his duties he must be continually studying co-operative literature, which is now most extensive; he must make himself acquainted with economic conditions and practices both throughout India and in his own province; he must know the principles and methods of joint stock banking; and must examine the systems of developing thrift and inculcating co-operation which have been tried in other countries. He is also head of a teaching establishment, and must devise effective means for impressing a real knowledge of co-operation on the bulk of the population. He has further to control a large staff, to draft model bye laws and rules, to collect statistics and write reports, to advise Government on various subjects, and to keep in close touch with the higher finance of the movement as managed by Provincial Banks and Central Banks. In addition to this

he must attend conferences, co-operative and agricultural, must keep in constant touch with markets, with honorary organisers and other well-wishers and various departments of Government, and must undertake a certain amount of writing and reading for the official press and for co-operative journals. As Mr. Wolff has put it to us, the Registrars should not be set down as officials, but as guides, philosophers, and friends to the societies, appointed and paid by the State. It must further be remembered that there is no finality in the Registrar's work and he can never feel that it has been cleared off and brought up to date. He will always feel the need of wider reading and of giving more and more supervision and teaching to his societies. New means and methods to attain fresh ends must constantly be discussed and devised. His work is, moreover, highly responsible involving a watch over large sums of money deposited by the public and a share in the responsibility for the economic fate of a province. It can well be realised that few officers are entrusted with work more serious or more exacting. The actual cost of the movement to the various Local Governments and the share of the cost debitable to the salaries of Registrars and their assistants are as shown below. The expenditure is in our opinion more than justified, and Government by initiating and developing co-operation is reaping a manifold recompense for the comparatively small sums expended by it. From the point of view of the economic interest of the country, the expenditure has been an excellent investment.

(In lakhs of rupees)

Province	Total cost to Government	Salaries of Registrars and their assistants
1	2	3
Madras	1.22	.40
Bombay	.95	.10
Bengal	.93	.18
Bihar and Orissa	.75	.25
United Provinces	.86	.32
Punjab	.85	.32
Burma	.93	.30
Central Provinces	.94	.32
Smaller provinces	.17	..
Total British India ..	7.60	2.19

193. *Status and remuneration of Registrar.*—The post of Registrar is not one which can without detriment be combined with other duties, and we consider that the Registrar should be, as he is already in most provinces, a whole-time officer. In most provinces the appointment is included as a Collector's post in the cadre of the Civil Service, and this arrangement affords, in our opinion, the best means of obtaining an officer of the requisite status without too narrowly restricting the circle from which he is drawn. In dealings with other departments and with outside bankers and business men it is important to have as Registrar an officer of some standing, and it would in our opinion be a grave dereliction of its duty for a Local Government to entrust interests of so vital and so far-reaching a character as those controlled by the Registrar to any but picked officers of experience and authority. We gather, however, from what we have heard on our tour

that the post as at present remunerated presents few attractions, and as it is essentially a post in which an officer is worthless if he is employed against his will, we consider that it should be adequately paid. At present the Registrar receives a local allowance of Rs. 150 per month and his salary is subject to a maximum limit of Rs. 2,250. As it is no part of our scheme to confine the Registrarship to the younger Collectors, we would recommend the abolition of this limitation on the salary of the post and as the appointment can scarcely continue to be worthily filled while it carries an allowance of Rs. 150 per month only, we would make the allowance a remunerative local allowance of Rs. 250. It should at the same time be clearly understood that an officer undertaking the duties of Registrar thereby gains experience which eminently qualifies him for executive promotion. He should on no account therefore be considered as on a side track and should not, on account of the special nature of the duties entrusted to him, be debarred from promotion at the proper time to a Commissionership or to other posts in the general line. It is advisable to afford him ample opportunities for keeping in personal touch with the Local Government during the small portion of the year which is not devoted to travelling, and this can most suitably be done by allowing him the right to visit, or by fixing his headquarters at, a hill station.

194. *Travelling by Registrar.*—We doubt, moreover, whether the expensive and arduous character of the Registrar's tours has always been fully realised. If he is to give adequate attention to his duties, he must be on tour for at least six months in the year. He has to travel over a whole province and in remote tracts. He has none of the conveniences on tour which are enjoyed by Provincial officers who visit large centres only or by District officers who travel within their own jurisdictions and among their own subordinates. The travelling allowance now drawn by him is in many provinces clearly inadequate, and we consider that he should be permitted to draw travelling allowance at a rate not less than the highest rate accorded to a Collector in the Province who is working as a head of a department. We would add in this connection that it would in our opinion greatly enhance the usefulness of Registrars if the Local Governments were to enable them from time to time to make short visits to other provinces for the sake of studying, in the company of the local Registrar, the systems prevailing in parts of the country outside his own jurisdiction.

195. *Status, remuneration and recruitment of Joint Registrars.*—The Registrar's post will, when it falls vacant, be ordinarily filled by selection from the Joint Registrars, and from what we have said in paragraph 90 it will be seen that, if our recommendations are followed, there will be a Registrar and at least one Joint Registrar in each major province. The post of Joint Registrar should, in our opinion, carry emoluments equal to those enjoyed in most provinces by a Settlement Officer. It is, moreover, essential that proper arrangements should be made to provide for the presence of a suitable successor to a Joint Registrar whenever necessity arises for it must be borne in mind that work of a very technical and responsible character cannot be entrusted to any officer without due training. The plan which we would advocate is that an Assistant Collector (and we would note that the inclusion of the posts of Registrar and Joint Registrars in the cadre of Collectors entails the creation of fresh corresponding posts of Assistant Collectors), or a Deputy Collector, if in possession of the qualifications required for a Joint Registrar, should always be in training and that the period of this training should ordinarily be for

one year. The officers under training, if Assistant Collectors, should be men of about 3 to 6 years standing, and they should be employed over and above the controlling staff postulated in paragraph 90. By this system, there will on the departure of a Joint Registrar be some three or four officers qualified for the post from whom a successor may be selected and ordinarily the officer selected should be placed on special duty in the office of the Registrar some six months before being himself called on to take charge.

196. *Training of Assistant Collectors in co-operation.*—As regards the training of young Assistant Collectors in co-operation soon after their first arrival in this country, we recognise that there are other claims upon their attention and would not suggest any special course of training or any substantial addition to the departmental examinations. Where Assistant Collectors are already being sent on a course of training in Survey, Settlement or Agriculture, the opportunity should be taken of requiring them to visit a few typical co-operative societies with a competent instructor. Again when the Collector under whom the Assistant is placed for training, inspects co-operative societies on his tour, it would be advisable for him to take his assistant with him, and the Registrar in the course of his tours should make a point of inviting the officers of the District to accompany him on his inspections. In the departmental examinations the subjects prescribed already take up so much of an officer's time that we hesitate to recommend any addition to the syllabus, but if a brief and suitable pamphlet on the principles and practice of co-operation in the province could be compiled, we would suggest that it might well be included in the subjects in which officers are examined.

197. *Conferences.*—We have noted in paragraph 30 the value we attach to small local conferences, and we consider that in most provinces district or divisional conferences, under the presidency of the Collector or Commissioner, have been productive of much practical benefit. The larger conferences, Provincial and Imperial, are also of value, not so much perhaps in the definite conclusions reached as in the interest aroused among high officials and the opportunities of personal meeting and consultation afforded to gentlemen interested in co-operation; but care should we think be taken to see that these conferences are not held so frequently as to make them mere routine proceedings. In all classes of conference we would wish to see officers of the Agricultural and other connected departments introduced as members, and it is in some cases a convenience to combine at one time and place the periodical conferences of the Co-operative and Agricultural Departments.

198. *Necessity for bringing the Co-operative Agricultural and Industry Departments under one head.*—We have noted in paragraph 7 the reasons why we have not examined in detail the circumstances of societies other than those connected with credit, but it will be seen from remarks which we have made in the course of our report how fully we recognise the importance of developments in agricultural co-operation, both in its relations with credit and also in its relations with the production and distribution of agricultural produce. The necessity for close intercourse between the Departments of Agriculture (including the Veterinary Department) and Co-operation has long been recognised, and we have ourselves found evidence in some provinces indicating the mischief done and the opportunities lost when the two departments are antagonistic or indifferent to each other. In several provinces steps have been already taken to secure closer relations, but in order to ensure real co-ordination of effort it is essential that both departments should be under

the same administrative superior or carry on their communications with Government through the same administrative channel, whether this link be found in a Member of Council or of the Board of Revenue, or in a Secretary to Government. In Bombay, the Registrar is under the Director of Agriculture but if he is to be of the status recommended by us he should be co-ordinated with, rather than subordinated to, him. Elsewhere the two officers are independent of each other, and both of them are either directly under the Local Government as in Bengal, Bihar and Orissa, the United Provinces and Assam; or under the Board of Revenue or the Financial Commissioner, as in Madras, the Central Provinces, Burma, and the Punjab. We would go further and suggest that the Director of Industries, where he exists and is not also Director of Agriculture, should not remain aloof from the Director of Agriculture and the Registrar but should work under the same head. In Bengal we understand that he is known as Superintendent of Industries and is under the Director of Public Instruction, in Madras and the United Provinces he is under the Local Government, and in the Central Provinces and Punjab, though as Director of Agriculture he is under the Financial Commissioner, as Director of Industries he is under the Local Government. In view of the close connection between co-operation and any scheme for the development of industries we should be glad to see the departments of Co-operation and Industries under a single superior authority. So too as regards the Registrar of Joint Stock Companies, while we do not advocate the combination of the office with that of Registrar of Co-operative Societies on the system prevailing in the United Provinces and the Punjab, we think that the duties of this officer have also a bearing on those of the others above mentioned and that when this is feasible they should all come under the control of the same superior officer. And finally we would co-ordinate the Director of Fisheries with the same group in provinces where such an officer exists and where the functions attached to the post are concerned more with the development of the industry than the production of revenue.

199. *The appointment of a Development Commissioner recommended.*—It will be seen therefore that we suggest the co-ordination under one head of the departments engaged in the promotion of Co-operation, Agriculture, and Industries and in the development of Fisheries and the registration of Companies. It has been proposed by the Government of Burma in a letter now before the Government of India that the first three departments should be combined under one officer to be known as the Director of Agriculture and Co-operation who should be an officer of the standing of a senior Deputy Commissioner or an officiating Commissioner who had served as Registrar, and he, being himself Chief Registrar, would have under his control (*a*) the Joint Registrars of Co-operative Societies and (*b*) the technical officers of the Agricultural, Civil Veterinary and Industry Departments. The Bengal District Administration Committee has also spoken with approval of a scheme by which the departments of Co-operation, Agriculture and Industries should be placed under an officer of the status of a junior Financial Commissioner to be known as the Commissioner of Rural Development and have suggested that a modification of the scheme, such as the addition of another member of the Board of Revenue, might be devised to suit the special conditions of Bengal. The object of both schemes is to bring the departments concerned under a single officer sufficiently senior in standing to carry weight with the non-official world and with the Local Government, to which he would have direct access. Recognising as we do the extreme importance of basing agricultural and industrial development on sound finance, the dangers to which

co-operative finance is liable, and the lack of control and co-ordination in the past, we are in sympathy with these proposals. It would be feasible to secure part of the benefits aimed at with less cost to Government by arranging to place the various departments concerned under one of the existing high officers of Government, such as a member of the Board of Revenue, and to redistribute the work of the Board in such a way as to secure that the work of these departments should constitute the main portion of his functions. It is possible that in some provinces action might be taken in this way and so far as it went it would be an improvement on the present position. But we would regard it as a transient arrangement only and it would fall short in several respects of the scheme which we ourselves would advocate. It seems to us to be of importance firstly that the Development Commissioner, if we may so name the officer in charge of this group of departments, should be a whole-time officer with leisure to study his subjects thoroughly and to work out schemes of improvement; secondly that he should be dissociated, if possible, from the more fiscal aspects of administration, connected with the assessment and collection of revenue, the exploitation of forests, and so forth, and should stand in the eyes of the people as a representative of Government in its beneficent aspect; thirdly that he should not be hampered by too close a connection with Secretariat procedure, but should be free to organize and control his work in direct touch with his officers. We should therefore prefer to see a whole-time officer appointed to the post with no duties outside the departments concerned and acting as an executive as well as an administrative agent and we recommend that the various provinces should make efforts to move towards the creation of a post of the character sketched by us, when opportunity offers.

200. *Qualifications of Development Commissioner.*—As regards the further question involved in the Burma proposal, *viz.* whether the officer acting in the new post should necessarily have served for several years as Registrar, we recognise that there would be great advantages in appointing an officer with this qualification, as the financing both of agriculture and of industries will rest largely with the co-operative movement. It is not, however, in our opinion necessary to insist on this qualification, at any rate for the present, and it is of equal importance to ensure that the officer selected for the high post which we have suggested, whether possessing this qualification or not, should not be one past work for whom the appointment is looked on as a convenient retreat. The post would be one of great importance and should be filled by the most competent officer available. Under the control of the Development Commissioner, who would be vested with the powers of a Registrar for the province under the Act, should be the technical experts, namely, the Controlling Staff of Co-operative Societies, the Directors of Agriculture and Industries, the Superintendent of Civil Veterinary Department, and so far as possible the heads of the other departments which we have enumerated above. The number of Registrars and Joint Registrars as computed in paragraph 90 should we consider, be calculated independently of the appointment of Development Commissioner.

201. *General powers of the Registrar.*—The relation of the Registrar as the mouthpiece of Government towards the movement is not always clearly defined, and difficulties are sometimes experienced in finding a suitable way to enforce his wishes. So far as financial considerations are concerned, we think that he should exercise his powers by controlling the supply of outside loans, and we would recommend that in each province a rule under Section 43 (2) (*e*) of the Act should prescribe that the maximum borrowings

of all classes of societies and the adoption of rates of interest should be under the general control of the Registrar. It is necessary also that Government should exercise its power to prevent any misuse of the co-operative organization to further religious or political aims. The fourth section of the Co-operative Societies Act indicates that societies are intended for the promotion of the 'economic interests' of their members, and we find in Europe that safeguards have been adopted to secure their purely moral and economic character. In the model articles of association, for instance, issued by the Raiffeisen Federation, it is laid down that " at meetings and in all the activities of the association opinions and measures of a religious or political character are absolutely prohibited.' * In India we are glad to say that we have seen little or no signs of the introduction of any spirit of religious controversy, and from a political point of view the societies have afforded an excellent outlet for the public-spirited activities of Indians who desire to ameliorate the condition of their fellow countrymen on the lines of self-help. It is obvious, however, that an organization like that of co-operative societies might in certain circumstances be employed for improper objects, and it would be unwise for Government, which has started and fostered the movement, to deprive itself of the power to intervene if it saw it developing in undesirable directions. We should, therefore, be glad to see a rule issued by Local Governments under Section 43 (1) of the Act which should give power to the Registrar to rescind any resolution or action of an officer, or a Committee, or a society, which would contravene the principle that the discussion or propagation of controversial opinions of a political or religious character should be entirely excluded from the activities of the movement.

In addition to the issue of a rule of this kind, we should be glad to see the objects of societies defined from a positive standpoint by a rule under the Act, and the definition might follow closely, with the necessary modifications, the description given of the activities of the Raiffeisen societies in the articles of association above alluded to, which runs as follows :—

" The association aims less at realising profits from its business than at strengthening those economically weak, and at promoting the intellectual and moral welfare of its members. Its activities must accordingly extend to (*a*) the furtherance of thrift, (*b*) the accumulation of an indivisible association fund (foundation fund) for the promotion of the economic conditions of the members, (*c*) the organization of means for the cultivation of rural social welfare and of love of home, (*d*) the establishment of conciliation courts of the association for the purpose of checking litigation, (*e*) the active opposition to such transactions in real property as are against the public good and such participation in the relief of landed property from debt, as may be expedient, (*f*) the holding of instructive lectures and the exchange of practical experiences at the meetings of members."

202. *Need for an advisory agency at headquarters of Government.*—The administration of co-operative societies has hitherto been regarded as a purely provincial matter subject merely to the ordinary control of the Government of India. The Registrars and their staffs are paid for by the Local Governments and are subject exclusively to their orders. The law vests full power in the hands of the Local Governments, and in the one

*Cahill's Report on Agricultural Credit and Agricultural Co-operation in Germany. Appendices—Page 94.

case where Government has guaranteed a co-operative institution, the guarantee is secured on provincial revenues. The movement is a new one involving many technical points, and it has been consequently difficult either for the Provincial or the Imperial Governments to exercise any informed control over it. As a result a number of undesirable practices have sprung up and in some cases new institutions of a disputable character have come into existence. As the movement increases in size and complexity, the dangers, both of a financial and an administrative kind to which it is exposed will become yearly more serious and less easy to obviate. Cases have occurred in which rash action fraught with serious consequences has been taken; and in the absence of superior control there is a danger that in the future some ill-advised step may lead to a catastrophe the effects of which may extend beyond the province immediately concerned. It is in our opinion impossible to expect either the local or the supreme Government, really to control the movement, so long as they have no special means of acquainting themselves with co-operative systems or any proper opportunity for supervision on which such control could be based. We consider therefore that some outside agency should be placed at the disposal of Government to assist it in this matter; and after full consideration we have come to the conclusion that this agency while available for the use of Local Governments, should be attached primarily to the Government of India. The appointment of a single agent of this kind is naturally less expensive than a separate arrangement for each province and it is justified by the fact that co-operation in this country must ultimately be regarded as an Imperial concern. The movement has in its initial stages very properly been allowed to develop on independent lines in various provinces, but time and experience have shown the course most suitable for adoption in each case and a greater degree of uniformity should now be required, not for the mere sake of uniformity but as an indispensable factor in administrative and financial security. With news travelling as fast as it does to-day it is impossible to think of any serious failures taking place in the co-operative machinery of one province without affecting the reputation and success of the co-operative movement throughout India.

203. *An officer with the Government of India recommended.*—Without therefore desiring to impair in any way the responsibility and powers now attaching to the Local Governments and the Registrars, we would draw attention to one method of attaining the objects described in the last paragraph, namely the constitution of an advisory agency of some sort at the headquarters of the Government of India. We are aware of the objections raised by the recent Decentralization Commission to the multiplication of such agencies with the Supreme Government, but we believe that the possible financial and economic results of further neglect are sufficiently serious to justify an exceptional step of this character. The machinery of annual conferences on which the Commission placed much reliance has in the case of co-operation been tried and found inadequate, since such conferences can neither exercise continuous supervision nor impose any control where it is required. The agency at the disposal of Government might consist either of a standing committee of some kind or of a special officer deputed to the Government of India. There would be difficulties in obtaining regular attendance from the members of a Committee who presumably would have other duties to perform. They would be likely to have little cohesion or sense of real responsibility, and could scarcely be expected to make themselves acquainted with local conditions. We therefore recommend the appointment of an individual officer who would be attached to the Government of India but expected to tour in the

provinces. Such an officer would in no sense be entitled to give orders to Registrars and much less to Local Governments. His duties would be confined to making enquiries and tendering advice. It would be part of his functions to examine returns from Co-operative Banks and to keep the Local and Supreme Governments acquainted with his views on their financial and economic condition. He would form a link between the movement and outside financing agencies. It has been represented that this officer should by preference be a business expert, but the majority of us consider that in view of the character of the banking business carried on by co-operative institutions, it would be more important for him to have a thorough knowledge of co-operation and actual experience of co-operative work in this country than an acquaintance with the details of banking methods. It would be for the Government of India to settle the remuneration to be attached to the post, but we would recommend that it should be sufficient to attract an officer who has held the office of Registrar or Development Commissioner in some province.

Public deposits, Agricultural advances, etc.

204. *Investment of Court of Wards' moneys, Local fund balances, etc., in co-operative institutions.*—The shares and deposits of co-operative institutions are not at present Trust securities. When therefore the investment of money belonging to the Court of Wards is limited by the law to Trust securities, it is impossible to invest such money in co-operative institutions, but the existence of such a limitation would not, it is presumed, prevent the use of the Court of Wards' funds for assisting societies constituted for the benefit of the Ward's estate or its tenantry, or the deposit of such funds in a Central Bank if earmarked for the benefit of the estate. In Provinces where the law does not expressly limit the investment of the Wards' funds to Trust securities, we see no objection from the co-operative point of view to the acceptance of such funds as shares and deposits of co-operative institutions, though we are not prepared to endorse the view apparently held by some co-operators that these institutions have any kind of claim for assistance from such funds. Similarly we should not feel called to reject deposits made by Municipal or other Local Bodies, if permitted by the ordinary rules of administration, whether these deposits represented funds held for definite purposes or ordinary account balances. In cases where the risk falls partly on Government, such as the investment of security money tendered by Government servants, treasurers, etc., we think that it is in every way justifiable to allow the person concerned to place his security money, if he so desires, in a co-operative security, rather than in Government paper where the interest is low and the capital liable to fluctuations in value; and rules have in two provinces at least been recently introduced to admit of this being done.

205. *Grants by private individuals or local bodies.*—Grants to societies either as advances or as donations or in the form of payments for staff are occasionally made by private individuals or associations or local bodies, and so long as any undue pauperization of societies is avoided we see no objection to the receipt of such grants. They are especially appropriate in the case of new developments such as dairies, cattle breeding, etc., which are suitable objects for such grants independently of their co-operative character, and we would not be disposed to circumscribe such grants with limitations as rigid as those suitable for grants made by Government itself.

206. *Agricultural loans under Act XII of* 1884 *granted through societies.*—There has been considerable discussion from time to time as to the relation of societies towards the agricultural loans made by Government under Act XII of 1884 to owners and occupiers of agricultural land for agricultural purposes such as the purchase of seed and cattle. As the class of men who borrow from co-operative societies and the objects for which they borrow are practically the same as those contemplated by the Act of 1884, it has naturally been asked whether use could not be made of the societies in the distribution of these loans.

The attitude taken up by the Government of India in 1909 and reaffirmed in 1913 and 1914 has been that although there is no objection to using the societies as the channel for distributing loans the loans must be made under the Act to the individual members, each recipient being separately recorded in the Government books. If this condition is observed the societies are accepted as sureties to Government for loans made to their members, and they may levy in return a security fee not exceeding 2 per cent. of the loans. We have no data regarding the amount of loans so given, but from our enquiries we gather that Local Governments have made little or no use of this method in the grant of ordinary agricultural loans. Large sums have, however, been occasionally given under special circumstances with the sanction of the Government of India, especially in Bengal and Burma, both before and after the issue of the orders of 1909 and it was understood by the Government of India that all grants so given after 1909 were given on the system then prescribed. That system has not, however, been strictly adhered to and in some instances the Government of India has itself left it to societies to decide on the rate of interest at which they would distribute the loans to members. The distribution of agricultural loans through societies enables Government to utilize the local knowledge of the societies and to benefit from the additional security which they afford, while it saves the borrowers from the delays and vexations attendant on the direct receipt of loans from the Government treasuries. It is true that the rates which are in practice charged by societies to members are very much higher—anything from 3 to 12 per cent. higher—than those on which loans are obtained direct from Government but the freedom from extortion and delay obtained by the employment of societies as a medium is ordinarily considered to compensate the members for the higher interest charged, especially in the case of the small and short loans which constitute the bulk of the agricultural loans under the Act of 1884. The true cost of the Government agricultural loan to the peasant borrower may be estimated from the fact that in one Province members of societies have been known to borrow at 18 per cent. from the societies in order to pay off agricultural loans on which the nominal rate is 5 per cent. In any case it has hitherto been understood that a member of a society is at liberty, if he so wishes, to apply direct to the Government officials for agricultural loans and so obtain them at the rate fixed for the public at large.

207. *Recommendation that Government Agricultural loans should be granted to societies themselves.*—There are many officers, however, who would go a step further and provide for loans being made not merely through the society, but to the society, and this arrangement has been repeatedly pressed on the Government. It is argued that unless the disposal of the loan (subject to its employment for the objects specified in the Act) is left to the society, the Government fails to relieve itself of the enormous

amount of time and trouble expended in the clerical work connected with the grant and recovery of loans; that if left to the society for distribution the loans will be far more efficaciously distributed; and that if recovery is effected by the society it will be managed with far more regard to individual circumstances than is ever possible when recovery is left to Government agency. The only serious objection which has been brought against the scheme is that societies would be tempted to obtain large additions to their capital at the expense of the State instead of relying on their own exertions or those of their financing agencies. We believe, however, that if such grants are given after approval by the Registrar or some officer authorized by him there is little fear of any such misuse of the system. We should not in any case suggest that the system should apply to isolated applications by members for loans, as these can be met by the societies themselves or can, subject to our suggestions below, be dealt with direct by the Government officers. The grant of Government agricultural loans to societies should be confined to occasions when these loans are being distributed wholesale, as in the case of severe scarcity or in that of a scheme of new colonization on waste lands. The large grants of agricultural loans on the Mon Canal in Burma, which notwithstanding the orders above referred to have in practice been given out on the system which we recommend, have been attended with no sort of inconvenience and have been of immense value to the colonists. We would allow societies in such cases to charge up to their usual rates of interest, as it is in such cases that the risk in recoveries is largest and a society while ordinarily forbidding a member to obtain advances from outside, could at the same time permit him, when it has no funds of its own, to apply with its permission for a direct advance from Government at the ordinary Government rates. The grants made under these circumstances to societies could no doubt be made by Government under ordinary executive order and could be recovered under the provisions of section 44 of the Co-operative Societies Act. But the natural course would be to make them under the Agriculturists Loans Act of 1884 and as a co-operative society is not qualified to receive loans under that Act a small amendment in the Act would then have to be undertaken. It seems to us important to emphasize the fact that these loans are not to be looked on as advances for fostering a new form of organization, but are part of the ordinary routine of administration, involving no change of policy or procedure except to the extent of substituting the agency of co-operative societies for that of Government officials. We would therefore recommend the addition of a section to Act XII of 1884 so as to allow of the making of rules as to loans to be made to co-operative societies registered under Act II of 1912 for the purposes specified in the Act of 1884. Such loans could be recovered under section 44 of the Co-operative Societies Act. As these loans are issued in accordance with the agricultural loans policy of Government and not as part of the ordinary working capital of the society they should be made quite irrespective of the amount of the balances available in the society in the form of fluid resource. Where a few societies only are concerned or where the societies concerned have not been affiliated to a central bank, the advances would be made to the societies themselves, the central bank, where it exists, being duly informed by Government of the grant; but where the advances are needed for a number of societies federated under a central bank, the loans might in our opinion be given to the central bank for distribution, the bank being allowed to charge enough interest to cover its expenses. Where an organisation with local knowledge such as that maintained by a central bank is in existence, it seems to us proper that Government should make use of it rather than add to the

labours of its own in this respectless efficient staff. The Government has as security its claim on the share capital of the Central Bank together with the pro-notes of the societies concerned covering the amount of the advances made by it. These would be endorsed over to the Collector and give him a claim to proceed under section 44 for the recovery of advances as arrears of land revenue. Whether the loans are made to societies or to central banks they must of course be given for the purposes specified in the Act of 1884, and although it will not always be easy in the case of societies or banks, any more than in the case of individuals, to trace the precise use made of the advances, it should always be open to Government to recall them in cases of proved misuse.

208. *Agricultural loans under Act XIX of* 1883.—We have dealt above exclusively with the loans given under the Agriculturists Loans Act for seed, cattle and so forth. What we have said will, however, to a large extent apply also to loans under the Land Improvement Loans Act of 1883. These advances are in larger sums and for longer terms than those made under the Agriculturists Loans Act, and in the case of individual applications it is perhaps simpler for the loans to be given to members of societies direct by the Government treasuries. But there is a class of cases in which the loan can more suitably be given to a society, as for instance when an improvement has to be made by the joint exertions of a number of peasants and in land belonging to a number of persons. The society through its committee is able to exert a control which is often most useful over the disposal of funds in such cases and over the management of the work when completed. We would permit societies at any time to make applications for loans to carry out large improvements of this character, the law being if necessary altered to allow of this being done. The society in such cases would be allowed to fix its own rates for recovery from members but in view of the security it would hold it would be expected to charge something lower than its ordinary rates of interest. The loans would be made irrespective of the presence of funds in the society itself and though they would ordinarily be for long terms such as 10 or 20 years, which are considerably in excess of the terms for which societies normally grant loans, the society would not be expected to provide corresponding fluid resource as cover for the loans received, but would keep the transactions regarding these separate from the rest of its business.

Effects of famine, banking crisis and war

209. *Effect of famine.*—Since the co-operative movement approached its present scale it has not been subjected to any widespread famine, but it has had to contend with serious scarcity in parts of the Bombay Presidency in 1911-14 and in parts of the United Provinces in 1913-14. The effects of the famine conditions so far as they can be judged by figures will be seen from the statistics given below. As regards Bombay, the figures, which are confined to the Gujrat famine area, show how fresh deposits and repayments of loans alike decreased during the year of famine and revived in the succeeding year, while the grant of new loans after suffering a slight contraction during the famine years was subsequently resumed on the usual scale. In the United Provinces the result of famine on the net funds in deposit in Central Banks has been inconsiderable, but the repayment of loans has been much delayed and the grant of new loans somewhat contracted. The organization of the societies was used to a certain extent in the United Provinces for the grant of Government agricultural loans, and in Bombay for the distribution of hay and grass for cattle provided as charitable relief. But in neither case was the famine sufficiently

crushing or widespread to render the assistance provided by the societies, as supplemented by the Government loans, inadequate for the essential requirements of the members. Though the movement has not yet been subjected to the severe strain of a great famine, we believe that if fluid resources have been accumulated in sufficient quantities and if agricultural loans are freely granted to societies in the manner we have above recommended, the situation will be satisfactorily met. The chief difficulty in all famines will lie in the judicious management of loans and recoveries after the main stress is over. For some little time after the scarcity has been at its height, members will apply for larger loans than usual and will at the same time be less able than usual to repay what they already owe. It is for the society to bear in mind the inevitable recurrence of cycles of good and bad years, to be economical in the issue of loans in times of plenty, and to be still more economical in times of stress, but at the same time to continue granting loans harvest after harvest till good times return, ignoring if necessary the preconceived limits based on valuations of the members' property and earnings, and finally to recover gradually but vigilantly all sums that a prudent money-lender would recover, without allowing the borrower to misuse on unnecessary objects the savings which he should refund to the society. In some parts of the country which are particularly liable to famine the existence of seasonal cycles is well recognized and is the basis of all private money-lending and all economic development. In such areas the society and its depositors should from the beginning understand that the loans given out may have to be extended and may have to be supplemented for further periods, reaching it may be to three, four or five years, but without any risk or doubt regarding ultimate repayments; the peasants in such areas being known to be as a rule the hardiest of agriculturists and, if only time be given, the most honest of borrowers.

—	Bombay: Figures for primary societies showing effect of famine of 1911-12 on the three affected Districts of Gujrat			United Provinces: Combined figures for Central Banks and Primary Societies showing effect of famine of 1913-14 on the seven affected Districts in the United Provinces		
	1910–11	1911–12	1912–13	1911–12	1912–13	1913–14
1	2	3	4	5	6	7
I.—Number of societies. Central Banks.	..	..	..	3	8	8
I.—Number of societies. Primary Societies.	30	41	62	..	405	431
	Rs.	Rs.	Rs.	Rs. (lakhs.)	Rs. (lakhs.)	Rs. (lakhs.)
II.—Loans and deposits—						
(a) Received from members and non-members.	17,147	13,509	28,622	2.32	3.92	6.91
(b) Withdrawn by members and non-members.	7,116	9,749	16,351	1.40	2.80	4.92
III.—(a) Loans repaid by members and others.	72,037	52,470	92,166	7.86	14.04	5.83
(b) Loans advanced to members and others.	81,926	75,433	1,20,296	9.55	19.40	11.52
IV.—Loans outstanding from members—						
(a) at beginning of year	58,603	69,528	92,494	7.06	8.73	18.06
(b) at end of year.	69,528	92,494	1,20,623	8.73	18.06	23.69

In Bombay and the Central Provinces there are small funds attached to the co-operative movement which are known as Famine Reserve funds. In Bombay this fund originated in a charitable donation by the Wadia Trustees, which was distributed among six small societies in famine tracts on their undertaking to add Rs. 20 each annually to their share. The money is kept in the Bombay Central Bank as a fixed deposit and may only be withdrawn in the event of a famine and with the Registrar's sanction. In the Central Provinces every Central Bank and primary society is required to contribute to the permanent and indivisible funds of the Provincial Union a sum amounting to 25 per cent. of the cost of the establishment, etc. maintained for it by the Union. This contribution is re-invested by the Union in the shares of the Central Bank which makes it, and the profits on such investment are separately invested as a Famine Insurance fund and may be only used for the support of the Provincial Bank with the Registrar's sanction and in time of famine.

The sums now at the credit of the infant Reserve funds are at present of no particular importance. As safeguards against famine, in the ordinary sense of the term, these funds are at present of no appreciable value and our opinion is that famines should be met by co-operative institutions out of their own ordinary credit built up in the manner recommended by us in this Report and without the constitution of special funds of this character.

210. *Effect of banking crises.*—Previous to 1913 the only serious banking failures affecting the co-operative movement were the Arbuthnot failure in Madras in 1906 and the Bank of Burma failure in 1912. The former crisis took place before the co-operative movement was well established and its main effect as far as co-operation was concerned was to divert deposits to the Madras Central Urban Bank and to consolidate that institution. The failure of the Bank of Burma and the anticipations of that failure led to a temporary drop in the deposits of the Upper Burma Central Bank but with an increase in the rates offered the deposits soon reached their former level and the position was so restored that the total deposits held at the end of each year displayed a progressive increase.

(In lakhs of rupees)

	Deposits from members and non-members in the Provincial and Central Banks in Burma
1910-11	5.07
1911-12	12.19
1912-13	16.41
1913-14	21.23

In September 1913 and the following months the whole of India—but more especially the Bombay Presidency and the United Provinces and Punjab—was subjected to a banking crisis of considerable magnitude and no fewer than 57 banks with an authorised capital of Rs. 992 lakhs and a subscribed capital of 411 lakhs were forced into liquidation between November 1913 and November 1914. It would naturally have been expected that when public confidence in banking was shaken and when money could be lent at high interest

in the open market, the amount of deposits in the co-operative societies and banks would have appreciably fallen. As a matter of fact the crisis had a contrary effect, and in most provinces there was a movement to withdraw deposits from non-co-operative and to place them in co-operative institutions, the distinction between the two classes of security being well appreciated and a preference being given to the latter owing partly to the local character and publicity of co-operative institutions but mainly, we think, to the connection of Government with the co-operative movement. Only in the Punjab where the crisis was most acute and where deposits constitute a specially marked feature of the finance of primary societies, was there any cause for anxiety, but although the new deposits in rural societies in the Punjab were 3 lakhs less than in the year before and the withdrawals 5½ lakhs more, there was a slight increase in the total amount of agricultural deposits lying with primary societies at the end of the year and a considerable increase in the deposits in Central Banks. The figures quoted below may be taken as sufficient indication of the generally beneficial effect of the crisis on co-operation both in India at large and in the provinces specially concerned.

Province	Total deposits held from members and non-members			Deposits per society from members and non-members		
	1911–12	1912–13	1913–14	1911–12	1912–13	1913–14
1	2	3	4	5	6	7
	Rs. (lakhs.)	Rs. (lakhs.)	Rs. (lakhs.)	Rs.	Rs.	Rs.
Bombay	15.41	25.98	32.94	4,187	4,940	4,607
United Provinces	32.70	38.23	46.24	1,680	1,511	1,651
Punjab	30.83	53.28	72.79	1,743	1,873	2,184
All British India ..	153.47	223.54	310.71	1,877	1,895	2,088

211. *Effect of the war.*—With the commencement of the war in August 1914 a somewhat different set of influences came into play, but the result even in the serious environment due to the war has been altogether reassuring. If the connection with Government was a strength to the movement in dealing with the banking crisis, it was probably a source, up to a certain point, of weakness in connection with the war. The effect of the war was however felt less in a want of confidence in the established Government than in the indirect influence exercised by the altered prices of agricultural produce. It was not therefore by means of a withdrawal or stoppage of deposits so much as by a want of cash among the peasants for the repayment of loans already out that the war impaired the position of societies. There was it is true in some places and especially in the first two months of the war a temporary tendency to withdraw existing deposits and a temporary cessation of new deposits, but the disturbance thus occasioned soon passed away and affairs had resumed by the end of the year a normal or almost normal situation. As will be seen by the figures given below the amount of money in deposit in Central Banks had on January 1st, 1915, reached a total closely approximating to the normal rate of increase. In one or two provinces additional deposits were encouraged by the grant of higher rates of interest, but this step does not seem to have been so generally adopted as

the circumstances might have justified. The true effect of the war was displayed in the influence of prices on the sums due for recovery from borrowers. The market for rice, for instance, was seriously affected in Burma, that for jute in Bengal, that for ground-nuts in Madras and that for cotton in Northern and Western India. Recoveries therefore were lower than had originally been anticipated, and if the fall in the prices of the autumn crops had been followed by a bad wheat crop in Northern and Central India the general effect might have been much more serious than it has been.

(In lakhs of rupees)

Provinces	Deposits held by Central and Provincial Banks from members and non-members							
	Total				Per bank			
	1911-12	1912-13	1913-14	1-1-15	1911-12	1912-13	1913-14	1-1-15
1	2	3	4	5	6	7	8	9
Madras	*27.62	33.07	40.78	42.05	.307	4.72	5.10	6.01
Bombay	8.09	11.09	13.59	13.50	.90	3.69	3.40	4.50
Bengal	2.54	10.51	26.86	29.54	.36	.62	.81	.89
Bihar and Orissa	1.89	2.84	6.33	11.59	.24	.36	.53	.96
United Provinces	13.23	32.47	40.34	46.55	.43	.64	.73	.85
Punjab	11.64	19.78	†26.84	29.08	.45	.58	.70	.76
Burma	12.19	16.41	21.23	23.98	6.09	5.47	7.08	7.99
Central Provinces	1.37	7.80	16.93	17.62	.05	.30	.58	.63
Assam	.77	1.13	1.39	1.50	.77	.19	.32	.25
Ajmer	1.79	3.92	5.59	6.10	1.79	1.31	1.12	1.22
Total British India ..	81.13	139.02	199.88	221.51	.67	.88	1.05	1.17

*Include figures for 3 Unions. †The figure shown in the annual return has been revised.

Financial aid by Government

212. *Three departures of Government from its attitude of financial isolation.*—Unlike most European Governments, the Government of India has hitherto closely adhered to the principle that it should abstain from giving direct financial aid to the movement. From this attitude, however, it has admitted of departure on three different occasions. It has allowed itself to make initial advances to encourage the establishment of new societies. It has in the case of one Provincial Bank (the Central Bank of Bombay) agreed to guarantee interest on debentures issued. And it has lately in two provinces made special advances to meet difficulties caused by the war.

213. (*i*) *Advances by Government to nascent societies.*—On the introduction of the Act of 1904, permission was given to Local Governments to advance to any rural society a sum not exceeding Rs. 2,000 and not exceeding the capital subscribed or deposited by

the members themselves, to be held without interest for three years and to be recoverable thereafter in ten annual instalments with interest at 4 per cent. The conditions attached to these grants were in some respects relaxed in later years, but the total amounts so advanced were never very large, and the practice of making them has gradually diminished. The figures in our returns include (especially in Bengal, Burma and Ajmer) considerable sums given as agricultural advances under the ordinary law, to which reference has been made above. The sum given out to agricultural societies under the orders of 1904 after excluding Government agricultural advances did not in 1913-14 exceed some Rs. 16,000 while Rs. 21,900 was given out on similar conditions to non-agricultural societies. These advances were intended primarily to start the movement in its infancy and to initiate new societies which otherwise would have failed to raise the requisite capital. They have for the most part served their turn and we found that they were almost everywhere being repaid with punctuality. Some provinces have now ceased from making them, and in view of the large number of financing agencies now available recourse is seldom had to fresh advances of this kind. They can be justified in certain cases such as the initiation of societies among very poor castes or among hill tribes which could offer little or no material security, and they are now we believe mainly confined to this type of society. The temptations to abuse this class of advance which undoubtedly existed in the early days of the movement have now little or no force, and experience has shown that the power of utilising such advances may safely be left in the hands of Local Governments and Registrars. We would therefore advocate no change in the existing rules regarding these initial advances, but we believe that they will be even less used in the future than in the past. We may add that there is no reason for confining such grants to credit societies and they are equally useful in societies for production and distribution. In the case of insurance societies, however, such aid as may be given by Government should we think be given as suggested by us in paragraph 12 above by means of a guarantee or loan in aid of reinsurance.

(In lakhs of rupees)

Year	Loans advanced during the year to	
	Primary Agricultural Societies	Primary non-Agricultural Societies
1	2	3
1906–07	1.27	.34
1907–08	2.48	2.86
1908–09	1.84	.64
1909–10	1.15	.10
1910–11	.73	.15
1911–12	2.56	.13
1912–13	2.29	.05
1913–14	1.36	.22

214. (*ii*) *Guarantee of interest on debentures.*—The second departure which the Government made from its attitude of financial aloofness was in connection with the foundation of the Bombay Central Bank in 1911. This Bank was authorised to issue debentures carrying interest at 4 per cent., a rate which was guaranteed by the Secretary of State on the security of the Provincial Revenues subject to a detailed agreement with the Bank which was intended to secure the co-operative character of its activities. This guarantee is not a serious financial liability to Government, and it enables the Bank to obtain long term money at 4 per cent. which would otherwise have been only obtainable at 5 per cent. or 5½ per cent. This example has not, however, been followed in the Provincial Banks established in the Central Provinces and Bihar and Orissa.

215. (*iii*) *Advances to meet the situation caused by the war.*—The third occasion on which Government has given direct financial aid to co-operation was after the outbreak of the war commencing in August 1914. In view of the lack of funds which was expected to result from the war, either directly from want of fresh deposits or indirectly from delay in the repayment of loans, the Government sanctioned some small advances to the movement in the autumn of 1914-1915. The advances amounted to five lakhs of rupees in all, of which three lakhs were sanctioned for one province and two for another. Of the amount sanctioned for one of these Provinces 2.55 lakhs only were distributed at 6¼ per cent. to twelve institutions, which utilised them either in loans for cultivation or as a reserve to meet withdrawals of deposits. But the withdrawals were less heavy than had been expected and although repayment of the advances was to have been made in two moieties due on July 1st, 1915 and 1916, respectively, a sum of 1.12 lakhs had already been repaid before April 1st, 1915. Of the two lakhs sanctioned for the other Province, one lakh intended for the help of agricultural societies was not actually drawn. The other lakh was distributed to six institutions at 6 per cent. repayable at call, but .32 only was utilised and of this .15 was invested in Government paper, while .02 had been repaid by April 1st, 1915.

216. *Present position of Government.*—Apart from the forms of subsidy outlined in the three preceding paragraphs, the Government has never taken financial responsibility for the movement. But the connection of Government with co-operative banks and societies in the way of audit, supervision, and control is so close that there is a general impression among those interested, that Government could not afford to see the movement collapse and that the finances of banks and societies are to all intents and purposes backed by the State. In some cases the banks and even the Government officers connnected with the movement have taken advantage of this impression. In others they have done what they could by precept and advertisement to counteract it. But the fact remains that the degree of ultimate responsibility attaching to Government is at present uncertain. In a circular, dated February 5, 1914, which dealt with agricultural grants, the Government of India expressed a wish that in cases where owing to general scarcity the funds of societies have become depleted, special reference should be made to them, but no further indication has been given as to the possibility of their coming to the assistance of societies or as to the principles upon which such assistance would be given. The attitude of the Government therefore is that it disclaims all financial responsibility and makes no definite promise of monetary support. This policy is based on a desire to establish a genuine co-operative movement which shall be self-contained and self-supporting, and, in so far as

it represents the rejection of a system of money doles or undue special concessions, it appears to us to be a correct and desirable policy. It is with the same object that we have put forward our numerous suggestions for the improved constitution and improved management of co-operative institutions.

217. *Difficulty of providing adequate fluid resources.*—Among our suggestions we have insisted upon the necessity for the provision of adequate fluid resources, but we must also recognise that this may not in all cases be easy or possible, and that an increasing difficulty will be experienced as years go on. The margins between the rates at which co-operative banks borrow and lend are smaller in some provinces than in others, and in provinces in which these margins are very small local conditions may perhaps make it impossible to raise the rate of interest charged to primary societies and by the latter to their members. Moreover as the movement extends there is little doubt that, as has been the case in other countries, the large margins which exist in some provinces will inevitably contract. It is in fact extremely doubtful whether the present co-operative banking system in India, if expected to be self-contained and self-supporting, can provide fluid resource to the extent necessary for safety and stability.

218. *Uncertainty of reliance on outside banks.*—A feature common to every practical system of banking and credit is that the bulk of the funds is invested in loans represented by bills, promissory notes, or other convertible or negotiable instruments possessing a marketable value, or covered by the deposit of securities which can at any time be realised in the open market. Deprived of this essential feature the organisation of finance would be rigid, and without elasticity it would be futile. Co-operative banking is of course, business of a special kind with methods and technique of its own. But there is no greater fallacy than to suppose that co-operative banking is not governed by the same basic laws of finance as ordinary banking. It is however under the special disability that the securities which it holds for its loans, namely, the pro-notes of primary Societies, are incapable of being turned into cash in the ordinary market. It is true that some co-operative banks have succeeded in establishing business relationships with the Presidency and Joint Stock Banks. These relations have not however taken the form of discount of societies' paper, but have been in the shape of loans or cash credits for definite amounts, which in some cases have been backed by the deposit of the pro-notes of societies and in some cases have been secured by the personal guarantee of men of substance connected with the co-operative bank. We gratefully acknowledge that the assistance given by the Presidency and Joint Stock Banks to the movement has been of great value, both direct and indirect. On the other hand, we must not be blind to the fact that all the Provinces have not been equally favoured, that the continuance of the support of these banks is uncertain and, to a very great extent, dependent upon personalities, and that the needs of co-operative institutions will increase far more rapidly than the amounts which reasons of business expediency will permit the Presidency and Joint Stock Banks to place in co-operative investments. In fact, although we recognize that the help of commercial banks is a most useful adjunct to the resources of the co-operative banker, we consider it unsound and dangerous to place too much reliance on such help, or to expect that they will take up to any appreciable degree the business of discounting the paper of societies. Nor is it to be expected that the Provincial Bank without any guarantee from Government like that given in Bombay will be able to raise its

capital at rates so substantially lower than Central Banks as to enable it to solve the difficulty of fluid resource in provinces where the smallness of margins embarrasses the Central Banks in this respect.

219. *System in Europe.*—This defect in the system of Indian co-operation is one which must be palpable to the students of European co-operative systems. The same difficulty has been experienced in all European countries and in no country has the movement been financed on any but a very restricted scale by Joint Stock Banks alone, while in every country in which the organisation of co-operative banking and credit has been accomplished with success it has been found necessary to provide either a special apical state-aided institution or to make arrangements whereby the existing state bank undertakes to perform the functions of such an institution. And because agricultural paper (representing as it does security which is remote and inconvenient to realize) is not generally acceptable to ordinary banks it is the most important function of such an institution to re-discount the promissory notes or bills of primary societies when endorsed by co-operative central financing agencies. It must be plain to those who have studied the problems of co-operative finance that on the facilities provided for re-discount rests the provision of adequate fluid resource, and that without these facilities all European systems would be impossible. The development of Indian co-operation has resembled in many respects that of the systems found possible in the more backward countries of Europe, where general conditions bear a close resemblance to those now existing in India. The material difference is that there exists in India no agency which can be relied on to provide the facilities of re-discount for co-operative banks, and thereby give to their finance that elasticity without which present stability and the safe progressive development of the co-operative movement appear to be difficult, if not impossible.

220. *Possible remedies.*—The question of the agency which could most suitably discharge this duty is a difficult one. It is as we have pointed out, in the highest degree improbable that the commercial banks will voluntarily undertake the work. It may perhaps be possible for some arrangement to be entered into with the Presidency Banks under which they will undertake the duty of re-discounting agricultural paper for Provincial co-operative banks. Failing this, according to the European precedent, the only alternative solution appears to lie in the establishment of a State co-operative apex bank. There are of course other advantages, beside the provision of the requisite financial stability, which would accrue to co-operation from the foundation of such a bank, but we recognise at the same time that there are grave difficulties from other aspects attendant upon the proposal. We therefore feel the need in which we stand of further informed advice from outside authorities and in the absence of such advice we hesitate to place before the Government any discussion of arguments or any tentative plan of our own. We are, however, greatly impressed by the difficulties which threaten the whole co-operative finance of the country, and we consider it necessary to place our view of these difficulties very prominently before the Government in order that such further steps may be taken as Government may consider necessary in order to secure a careful examination of this question and a satisfactory arrangement for meeting this serious deficiency in the existing co-operative organization.

CHAPTER VI

SUMMARY

221. *Societies other than agricultural credit societies, Chapter I.*—We have in the first chapter of this Report given a brief sketch of the origin and progress of co-operation in India, the passing of the Acts of 1904 and 1912, and the reasons for the constitution of our Committee (paragraphs 1—7). With the establishment of Central financing agencies after the passing of the Act of 1912, there arose a special class of difficulties in connection with the co-ordination and financial position of the various parts of the co-operative organisation, and our Committee while authorised to examine any important aspect of the movement was intended mainly for the suggestion of measures to meet this class of difficulties.

Of the 14,566 co-operative societies in existence in British India in 1914, no less than 13,715 were societies which had been started to provide Agricultural Credit and in dealing with the questions before it the Committee has in the main confined its remarks to those societies which came under this category. Much excellent work has been done by societies established for urban credit or for objects such as the purchase of instruments and seed, the production and sale of produce, the insurance of cattle and the like, and it is not improbable that the greatest developments of the future will be connected with this class of co-operation. In view, however, of the present preponderance in the number of agricultural credit societies and the similarity of the general principles which guide all classes of co-operation we have contented ourselves with a comparatively short examination of the ' non-credit ' and ' non-agricultural credit ' aspects of the work (paragraphs 8—19) and have dealt mainly with the institutions established for providing agricultural credit.

222. *The various classes of agricultural credit institutions, Chapters II—IV.*—These institutions were at first left—and we think rightly left—to develop on independent lines in different parts of the country, but the stage has now been reached at which further haphazard development can only be attended by complication and danger. In the forefront of these institutions are the primary credit societies themselves 13,715 in number, and in some provinces attempts have been made to group those societies for financial purposes into guaranteeing or other Unions. Above these societies and Unions, balancing their funds and supplying them with capital, are some 189 ' central banks ' of various kinds and above these again, performing in some degree for central banks the same function that the latter do for societies, we find in five Provinces a series of institutions which we have classed together as ' Provincial Banks.' We have dealt with these three groups of institutions in the second, third and fourth chapters of our Report and in each case we have examined separately (*a*) their constitution and management, (*b*) the composition and employment of their capital and (*c*) the manner in which they are audited and supervised.

223. *A.—Constitution and Management,—encouragement of co-operative elements.*—We have enumerated (paragraphs 24—39) the requirements which have in our opinion

to be met in order that the primary societies may be truly co-operative in their constitution. We have pointed out the extreme care which is necessary in the formation of new societies (paragraphs 24 and 39) and have indicated the principles upon which a decision should be reached as regards the area and size of normal societies (paragraphs 25 and 26). We have further urged (paragraph 30) the extreme importance of systematically inculcating the main principles of co-operation, both before and after the registration of a society, and have pointed out the increase in efficiency and financial stability that must result from such teaching. We have described (paragraph 101) the guaranteeing unions of societies which are found in Burma and elsewhere and have suggested their extension to other Provinces, as an intermediary between the society and the Central Bank. The Central Banks themselves are at present of three classes according as their shareholders are entirely individuals, entirely societies, or partly individuals and partly societies: and while advocating the disappearance of the first class and the ultimate adoption of the second, we have held that for the present the third or mixed form of constitution offers the best advantages, if due provision is made for enabling the co-operative element to secure at once a preponderating and ultimately an exclusive control (paragraphs 105—107). We consider that for each Central Bank a definite area corresponding as far as possible with administrative units should be assigned and we have calculated that the most economical size for a Central Bank is one that deals with not less than 200 to 250 societies (paragraph 108). We hold that all credit societies (or at any rate all agricultural credit societies) within the area of a Central Bank should be shareholders in the Bank and should have no dealings with other financial bodies (paragraph 112). To balance the excesses and deficiencies in Central Banks and to supply them with funds we would advocate the foundation at an early date of a co-operative institution at the head of each Province which does not now possess one (paragraph 166). These institutions should, in our opinion, be composed not of individual shareholders only, but should have a mixed constitution in which individuals and co-operative banks should both be represented and in which provision should be made for enabling co-operative banks to obtain within a short time the control of the general meeting though not necessarily of the Directorate (paragraphs 169—171). The constitution, in fact, of co-operative institutions at all stages should, in our opinion, be such as will ensure true co-operation and such as will secure assistance from middle class men of education, and where possible from business experts, without endangering the ultimate object in view, which is the concentration of the control in the hands of the co-operative institutions themselves.

224. *B.—Composition and employment of capital.*—The capital of co-operative institutions is composed mainly of shares, deposits and loans, and the liability is usually unlimited in the case of primary societies, while it is always limited in the case of Central or Provincial Banks.

Shares.—We have described the different systems upon which shares are now taken in societies in certain Provinces, and while indicating the circumstances under which we would advocate the introduction of a share system where it does not now exist we have recommended no general change in this respect (paragraphs 42—44). In the case of individual shareholders in Central and Provincial Banks, we recommend that as a general rule there should be one vote per man and no preference shares or reserve liability, while

in the case of societies which hold shares we would make the holdings of the societies proportionate to borrowings and permit of a portion only of their shares being paid up (paragraphs 116—121 and 172). For institutions of all grades the amount of dividend must, in our opinion, be limited, and we have indicated the principles upon which the limit should be imposed (paragraphs 45 and 123).

Deposits.—Deposits have hitherto constituted, except in the Punjab, a comparatively small portion of the capital of primary societies and we think that so long as deposits in such societies are of a local character every effort should be made to increase their amount (paragraph 48), all sums received in excess of the needs of the societies being duly forwarded to the Central Banks (paragraph 52). The period of deposits accepted by Co-operative Institutions of all kinds should ordinarily be for as long as possible (paragraphs 50, 130 and 174), but there are certain circumstances in which it would be legitimate to receive short term or current or savings deposits—(paragraphs 51, 127—28, 130 and 174). The class of depositors in primary societies differs somewhat from that depositing in Central or Provincial Banks and we have indicated the difference which this may entail in the arrangements for repayment (paragraphs 54 and 132). We have also stated our views regarding the circumstances in which Central Banks would be justified in attempting to raise money by debentures (paragraph 137).

Loans to societies and banks.—Loans received by the Provincial Banks from Presidency or Joint Stock Banks, and those received by Central Banks from Presidency, Joint Stock or Provincial Banks are generally though not always in the form of cash credits, and we have pointed out the conveniences, and at the same time the uncertainty, attaching to this form of advance from banks outside the movement (paragraphs 134—35 and 175). The advances made by Central Banks to societies on the other hand are ordinarily in the form of a loan for a term, and we have described in some detail the manner in which the credit of societies should for this purpose be assessed, the periods for which, the interest at which and the security on which such loans should be given, and the manner in which their recovery should be enforced (paragraphs 140—51).

Loans to members.—The principles on which societies should in their turn grant loans to members have also been examined by us at some length. We would allow sufficient cash to be kept locally to allow of urgent loans being given (paragraph 58), and we recommend the use of promissory notes and of members' pass books (paragraph 60). The total borrowing power of the Committee and the normal maximum borrowing power of each member should be assessed beforehand by the society (paragraph 59) and we have suggested the adoption of a system under which the period of a loan should as a rule automatically correspond with the object for which it is given (paragraph 64). We advocate the taking of sureties in all cases and the rigorous exaction of the sureties' liability when necessary (paragraph 65). While deprecating an extensive use of mortgages, we have stated the circumstances in which we consider them legitimate (paragraph 68) and we have suggested the possibility of special concessions being made to societies in the matter of mortgages and liens on crops (paragraphs 69 and 70). We have represented the disadvantages of premature reductions in the rates of interest charged to members (paragraph 72) and have pointed the way to an ultimate introduction of cash credits to members in place of loans (paragraph 73). We have laid special stress on the absolute necessity for introducing a systematic method of ascertaining the amount

of loans which are overdue and have not been repaid by members (paragraph 74) and the avoidance of fictitious repayments of loans (paragraph 77). While advocating the full use of the existing law in respect of recoveries from members we have not supported the claim put forward for a summary procedure in execution of decrees (paragraphs 78—9) and we have strongly deprecated the use of Government agency for the recovery of debts due to societies (paragraph 80).

Reserve Fund and Fluid Resource.—We have further considered the much debated question of the functions and employment of the Reserve Fund. We have held that all co-operative institutions should build up a Reserve Fund in the sense of surplus assets (paragraphs 82—3 and 152) and that every effort should be made by each institution to accumulate an 'owned' capital to supply its working needs and to meet the claims of creditors on liquidation (*ibid* and paragraphs 57 and 138). But we have also laid great stress on the necessity in the case of all institutions which take deposits to provide for themselves, either by their own investments or by arrangements with other banks, an adequate fluid resource, and, in the absence of facilities for discounting co-operative paper, we have suggested that this fluid resource should in Central Banks be sufficient to meet half the deposits due for payment within the next twelve months (paragraph 155), a standard of one-third being held sufficient in the case of Provincial Banks (paragraph 176). We consider it advisable that after satisfying the above requirements co-operative institutions should be left to utilize their surplus assets in their own business (paragraphs 83 and 152). We recognize that these proposals will in places entail a disarrangement of existing financial conditions and will in many cases involve a considerable raising of existing margins, but we are convinced that they should be carried out as soon as circumstances permit and before the natural fall in margins renders it difficult, if not impossible (paragraph 158).

Miscellaneous suggestions.—We have added some miscellaneous suggestions regarding the use of profits for charitable purposes or for the establishment of separate funds (paragraphs 85 and 161), the employment of superfluous money (paragraphs 159 and 178) and the introduction of a special procedure for recovery in liquidation (paragraph 87).

225. *C.—Audit and Supervision.*—We have then drawn attention to the vital importance of proper audit and supervision (paragraph 88). In the case of Central and Provincial Banks we suggest that the formal audit of accounts should be done on payment either by professional or by Government agency, the further examination of the condition of the banks and their general supervision being entrusted to Government agency (paragraphs 162-63 and 179). For primary societies the audit should include not only the accounts audit but a further examination (paragraph 91) and these duties should be carried out by a staff of auditors approved by the Registrars and maintained by the societies themselves (paragraph 94): the work of supervision being similarly entrusted to a staff paid for by the societies (paragraph 98). The auditing staff would be on a provincial basis and under the ultimate control of the Registrar (paragraphs 92 and 94), who would also entertain an adequate Government establishment on a scale suggested by us for maintaining a super-audit or second audit of societies (paragraph 93). We have added suggestions regarding the use to be made of audit reports (paragraph 96), the publication of balance sheets in Central and Provincial Banks (paragraphs

164 and 180) and the preparation of Annual and Quarterly Returns (paragraphs 99, 165 and 180).

226. *Public Aid.—Chapter V.*—In our fifth chapter we have examined a special class of questions relating to the degree in which the co-operative movement should receive administrative and financial help from the Government. We have suggested no additions to the special concessions permitted by the Act or to the concessions in respect of remittance, savings banks accounts, etc., which have been departmentally allowed to societies (paragraphs 181-182), but we have examined the relation of Government and its servants to the movement in other respects.

Government Servants and District Officers.—The rules prescribing the attitude of Government Servants as members, directors and depositors respectively to the various classes of co-operative institutions appear to us to be generally suitable, but we have recommended some minor changes which appear to us advisable (paragraphs 184-7). The relation of the District Officers (and in some cases of Sub-divisional Officers) to the movement has also been re-examined and while deprecating any devolution to the District Officers of duties assigned under the Act to the Registrar, or any general arrangement for making him *exofficio* a Director or Chairman of the Central Bank at District Headquarters, we would wish him to be entitled to attend all meetings of Central Bank in his jurisdiction (paragraphs 188-190).

The Registrar, Development Commissioner, and Adviser to Government.—We have stated in paragraph 90 in the second chapter of the Report our views as to the scale on which the controlling Government staff should be fixed, and we have in the fifth chapter explained the duties and qualifications required of the Registrars and Joint Registrars, the status they should hold, the pay and allowances which in our opinion they should draw, and the arrangements which should be made to provide qualified successors for vacancies in the post as well as for making junior civilians acquainted with the principles of co-operation (paragraphs 191-196). We have further examined a proposal which has sometimes been put forward for the co-ordination of certain economic departments including those of Co-operation, Agriculture and Industries under a single officer of high standing in each Province and have recommended that a move be made in this direction as opportunity offers (paragraphs 198-200). We have then pointed out the need for closer control by Government over the objects for which the co-operative organization is utilized and over the financial arrangements of the movement. To meet the former need we propose certain rules and bye laws to define accurately the objects and activities of co-operative institutions (paragraph 201) and to meet the latter we suggest the appointment of an officer with co-operative experience to act as adviser to the Local and Supreme Governments (paragraphs 202-3).

Investment of quasi-public funds and agricultural loans.—Indirect financial assistance has sometimes been given to the movement by the deposit of Court of Wards and other funds over which Government or Local Bodies have control, and we have indicated our opinion regarding the extent to which use might be made of co-operative societies for the deposit of other public or *quasi*-public funds (paragraph 204). We have also suggested that where agricultural loans are being given by Government on a large scale to meet seasonal distress or to provide for the initial expenses of a scheme of colonization, it

should be open to societies to receive such loans for distribution to their members, the arrangements for distribution, fixing of interest and recovery being left to the societies (paragraph 207) and we have suggested a somewhat similar procedure in the case of large loans to bodies of men for agricultural improvements (paragraph 208).

Financial responsibility of Government.—We have then examined the effect on the co-operative movement of recent famines, of banking crises and of the present war (paragraphs 209-211) and we have explained that the Government has hitherto given direct financial aid to Co-operation in three ways only, *viz.* (*i*) by the grant of initial advances to new societies, (*ii*) by guaranteeing the interest on the debentures of the Bombay Central Bank and (*iii*) by special advances in two Provinces to meet difficulties anticipated in connection with war (paragraphs 213-215). We have expressed our concurrence with the present policy of Government so far as it represents a rejection of the system of money doles and of undue concessions, but we have pointed out that in order to make the movement self-sufficing it will be necessary to provide some means of re-discounting the pro-notes of societies either through the Presidency Banks or by means of a State Co-operative Bank, and we have recommended that a careful examination should be made of this question (paragraphs 216-220).

227. *Catalogue of recommendations and opinions.*—In order to assist in the disposal of our Report we have drawn up and printed as Appendix III a comprehensive catalogue of our recommendations and opinions, and we have submitted separately our tentative suggestions regarding the manner in which each item in the catalogue should be dealt with.

228. *Conclusion.*—In conclusion we desire to take this opportunity for expressing our appreciation of the valuable assistance rendered by our Secretary Mr. R. B. Ewbank, I.C.S. In view both of his personal qualities and of his previous experience as a Registrar, he was admirably fitted for his duties in connection with our Committee and we are greatly indebted to him for the help which he has given us.

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APPENDICES

APPENDIX I

SYSTEMS OF CENTRAL AND PROVINCIAL BANKING OBTAINING IN THE VARIOUS PROVINCES OF INDIA

I.—MADRAS

A.—Provincial Bank

1. *System in Force.*—The Madras Central Urban Bank was registered in 1905, and organized originally as a Provincial Bank for lending to primary societies throughout the province and is now only distinguished from other Central Banks by the fact that its loans are made over a wider area.

It lends chiefly to primary societies in districts (*e.g.*, Chingleput, North Arcot, South Arcot, Anantpur, Kistna, Godavari, Ganjam, Vizagapatam, Nellore, Tinnevelly and Cuddapah) where there are no Central Banks, but also it occasionally lends to other Central Banks on the security of the pro-notes of primary societies, and it lends to its own individual members on the security of their deposits. In no case does the Madras Central Urban Bank grant cash credits. Loans to societies affiliated to Unions are granted by it on the recommendation of a Union which, however, thereby incurs no financial responsibility. For every other loan advanced, it requires the Registrar's separate recommendation. Before granting this the Registrar enquires into every application through his own staff and it is on this enquiry that the Provincial Bank chiefly relies. Asset valuation statements are prepared, and as a rule loans are not sanctioned up to more than ⅛th of the valuation of assets, though in some cases the proportion rises to ¼th. Propaganda work is done by the Government Inspectors and also, but to a smaller extent, by the staff of the Unions and 3 of the Central Banks. Organisation is usually done by Chief Inspectors. Propaganda work is not done by the Madras Central Urban Bank.

2. *Constitution and Management.*—The shares are all ordinary shares held by individual shareholders (300 in number). There is no representation of societies on the Board of Directors. No field staff is maintained, but it is proposed shortly to employ 3 touring inspectors. An office staff is employed at a cost of Rs. 12,507, which is engaged wholly in accountancy and banking work. The bank receives no State subvention.

3. *Assets and Liabilities.*—The balance sheet of the Bank stood on June 30th, 1914, as follows:—

Liabilities

Liabilities				Rs.	A.	P.
1. Share Capital (Fully Paid)				2,00,000	0	0
2. Deposits				24,04,111	6	6
3. Interest payable on Deposits				62,089	11	0
4. Reserve Fund				62,000	0	0
5. Dividend Equalization Fund				20,000	0	0
6. Building Fund				9,000	0	0
7. Dividend and Bonus payable (in the previous years) but not yet claimed ..				627	12	3
8. Interest on Prepaid Calls on Shares payable (in the previous years) but not yet claimed				7	15	8
9. Employees' Provident Fund				1,489	0	5
10. Overdraft from the Bank of Madras ..				2,13,580	0	9
11. Other items				818	10	0
12. Balance brought forward..	1,210	14	10			
13. Net profit for the year ..	53,418	8	2	54,629	7	0
Total ..				30,28,353	15	7

Assets

Assets	Rs.	A.	P.
1. Cash and Petty Cash on hand	5,550	4	2
2. Loans Outstanding	27,35,026	0	6
3. Interest earned	64,533	7	6
4. Fixed Deposit with the Bank of Madras	62,000	0	0
5. Fixed Deposit with the Upper Burma Central Co-operative Bank, Ltd., Mandalay	50,000	0	0
6. 3½% Government of India Promissory Notes of the face value of Rs. 1,15,000	1,10,246	13	0
7. Furniture and Fittings less 10% Depreciation	735	15	3
8. Other items	261	7	2
Total ..	30,28,353	15	7

4. *Composition of Capital.*—The share capital consists of 100 shares of Rs. 500 each and 1,500 shares of Rs. 100 each fully paid up and it represents 8 per cent. of the liabilities. No debentures have been issued.

Deposit rates are as follows:—Current, 2½ per cent. Fixed, under 6 months 3 per cent., under 1 year 4 per cent., under 2 years 5 per cent., under 3 years 5½ per cent., under 4 years 6 per cent., in addition to a 2.04 lakhs indeterminate (reserve funds of societies).

Rates are not manipulated to correspond with the rate of the Bank or the market.

No loans have been received from Joint Stock Banks but the Bank of Madras has granted a cash credit of 4 lakhs at 5½ per cent.,* secured on the pro-notes of societies, endorsed by the Madras Central Bank, of which 2.13 lakhs had been drawn on June 30th, 1914. In addition to the undrawn balance of this cash credit, the Bank held a fluid resource consisting of Government pro-notes of the face value of Rs. 1,15,000 and a deposit of Rs. 62,000 with the Bank of Madras. It has also deposited Rs. 50,000 in the Upper Burma Central Co-operative Bank for 3 years.

5. *Employment of Capital.*—Loans are granted to primary societies nominally for 1 or 2 years, but actually for 10 years, since under the conditions of the loan any primary society which repays 1/10th of a loan is entitled to an extension for the remainder.

The Registrar reports that agricultural societies ordinarily repay to central and provincial societies 22 per cent. of the total demand against them annually. Of the loans due to the Bank 9.74 lakhs are returned as authorised arrears and 5.27 lakhs as unauthorised. Loans are secured on pro-notes and carry a rate of 7½ per cent. if made to primary societies, and 7 or 7¼ per cent. if made to Central Banks. Arrears are notified to the Registrar who employs his staff in realization.

6. *Reserve Funds.*—The reserve fund is returned at 2.5 per cent. of the liabilities, and with the share capital represents 9 per cent. of the liabilities. In addition to it a dividend equalization fund and a building fund are maintained both of which are utilized in the business of the Bank.

Rs. 1.10 lakhs are held in Government Paper to cover 75 per cent. of the Bank's current accounts and Rs. .62 lakh deposit in the Bank of Madras are also realizable.

7. *Superfluous Funds.*—Apart from the deposit in the Upper Burma Central Co-operative Bank, such funds are used in the reduction of the cash credit account with the Bank of Madras. There appears to be no particular slack season.

8. *Division of Profits.*—The shares have for the last few years carried a dividend of 10 per cent. *plus* a bonus of 2 per cent. A rule is under the consideration of the Local Government limiting dividends to 12 per cent. There is no contingency fund.

9. *Audit and Supervision.*—The audit of the Bank is done by one of the Assistant Registrars. The Bank does not contribute to the cost of audit. In 1913-14, it contributed Rs. 1,833 to Unions towards the cost of the supervision of primary societies.

* NOTE.—The rate is fixed and does not vary with the market.

B.—Central Banks

10. *System in Force.*—There are 7 Central Banks in the Province, of which four admit individual members only and 3 admit societies to membership. In all 232 societies are affiliated to them. There are also 7 Unions, working as recommendatory institutions under Central Banks with 149 societies affiliated to them. As in the case of the Madras Central Bank loans are granted on the Registrar's sanction after an enquiry made by his staff. Four Unions maintain supervisors. The Directorates of Central Bank (except Madras and Trichinopoly) do considerable propagandist work: such work is also regularly done by the secretaries of the four Unions.

11. *Constitution and Management.*—The nominal value of shares varies from Rs. 10 in South Kanara to Rs. 500 in Salem. The more recently formed Banks have made special provision for the issue of shares to societies, and where societies hold shares, they are entitled to elect representatives on the Board of Management. As a rule, the area covered is a district. The Banks are generally managed by an Honorary Secretary with a staff of clerks under him and confine themselves to accountancy and banking business. With one exception they undertake also some supervision of primary societies. It is usual to pay $\frac{1}{8}$th of the net profits to the Honorary Secretary as his remuneration. The Banks receive no State subvention.

12. *Assets and Liabilities.*—The combined balance sheet of the 7 Central Banks stood as follows on June 30th, 1914:—

Assets	Rs.	Liabilities	Rs.
Cash in hand	67,836	Loans and deposits from non-members	11,31,896
Investments	11,954	Loans and deposits from societies ..	4,17,604
Loans due by members	34,310	Loans and deposits from members ..	5,33,515
Loans due by societies	22,14,692	Share Capital	1,96,865
Interest due to Banks	45,319	Interest and dividend due	47,298
Value of stock	—	Cost of management due	175
Other items	14,823	Other items	15,243
		Reserve Fund	12,028
		Total ..	23,54,624
		Profit ..	+34,310
Total ..	23,88,934	Total ..	23,88,934

13. *Composition of Capital.*—In Trichinopoly, Tenali and Madura Banks the share capital *plus* reserve fund represents less than 7 per cent. of the capital borrowed from outside but in the remaining Banks the proportion exceeds 12 per cent. No debentures have been issued. Deposits are received, chiefly from the urban classes, at rates varying from 5 to $6\frac{1}{2}$ per cent., and fixed as a rule for 1 or 2 years. Primary societies within their districts are also bound to deposit their reserve funds with the Central Banks. One Central Bank has a cash credit with the Provincial Bank. Two have opened cash credits with

the Bank of Madras and one with the Indian Bank. No restrictions are placed on the power of primary societies to take deposits.

14. *Employment of Capital.*—All Central Banks lend to societies at 7½ per cent. after the same enquiry and on the same security as in the case of the Madras Central Bank. The system of repayments is the same but does not work uniformly in all districts.

15. *Reserve Fund.*—No Bank carries more than the statutory minimum to reserve, but in several cases building funds, common-good funds and dividend equalization funds are maintained in addition. The reserve funds of primary societies are lodged with the Central Banks which finance them. The reserve funds of Central Banks in the mufassil are lodged with the Madras Central Bank and all Central Banks use as part of their working capital the reserve funds of other societies which are lodged with them.

16. *Division of Profits.*—Dividends to members are shortly to be limited by rule.

17. *Audit and Supervision.*—The audit of societies is done by the Registrar's staff consisting of 60 auditors paid by Government: that of the Central Banks by the Assistant Registrars. Two of the Central Banks and four of the Unions maintain a staff of 15 supervisors at a cost of Rs. 600 per month.

II.—BOMBAY

A.—The Provincial Bank

1. *System in Force.*—The Bombay Central Co-operative Bank Limited was registered in 1911, and is authorised to grant loans for periods not exceeding 10 years to any registered co-operative society or bank in the Bombay Presidency. It has no system of affiliating its client societies, of which only 6 have taken shares in it. It deals direct with all societies borrowing from it subject only to the restriction that every loan must be granted with the previous sanction of the Registrar. For the purpose of assessing the credit of applicants three special Mamlatdars, seconded from the Revenue Department, are employed under the Registrar, and paid half by the Provincial Bank and half by Government. They visit any society requiring a loan and prepare a valuation statement of the land held by members, which they submit to the Registrar together with a report on the general working of the society. The Registrar after referring to the audit note and the past record of the society transmits the papers to the Directors of the Provincial Bank for ultimate decision stating the maximum up to which a loan may be granted—a figure which generally does not exceed one-third of the estimated value of the property. When the loan is sanctioned, the amount is sent direct to the society by R. T. R. The work of the Provincial Bank is carried on by an Honorary Manager with a staff of paid clerks under him.

2. *Constitution and Management.*—The bank is of the individualistic type, 865 of the 871 shareholders being private persons. Its directorate is elected by the shareholders and consists of leading business men resident in Bombay City, but does not include any persons sitting as representatives of societies. The working expenses of the bank in the year 1913-14 were Rs. 14,007 representing .9 per cent. on the total working capital.

3. *Assets and Liabilities.*—The balance sheet of the bank stood on March 31st, 1914, as follows:—

Liabilities.	Rs. A. P.	Rs. A. P.
Capital—		
Subscribed shares 14,000 at Rs. 50 each—Rs. 7,00,000.		
Paid up Rs. 25 per share ..	3,50,000 0 0	
Less—Calls in arrears ..	11,870 0 0	
		3,38,130 0 0
Debentures—		
615 debentures of Rs. 1,000 each fully paid up. ..	..	6,15,000 0 0
Sinking Fund for debentures	..	8,475 0 0
Reserve Fund	..	2,700 0 0
Reserve against Law Charges	..	2,000 0 0
Premium on debentures ..	..	5,720 0 0
Societies' share of the divisible fund	..	2,787 8 0
Deposits in advance of calls	..	36,770 0 0
Deposits for debentures ..	..	880 0 0
Fixed and other deposits at Head Office	4,78,323 13 3	
Fixed and other deposits at Baramati	32,649 6 4	
		5,10,973 3 7
Interest Payable	..	25,835 15 11
Unpaid dividends	..	793 8 6
Profit and Loss Account—		
Balance of last year ..	71 8 0	
Add—Profit of this year ..	28,030 13 7	
	28,102 5 7	
Less—Ad-interim dividend paid	6,125 0 0	
		21,977 5 7
Total ..	..	15,72,042 9 7

Assets.	Rs. A. P.	Rs. A. P.
Land at Baramati ..	..	347 0 0
Safes and furnitures ..	2,473 15 9	
Less—Depreciation previously written of ..	492 1 0	
	1,981 14 9	
Less—Depreciation written off this year	494 12 9	
		1,487 2 0
Oil cake at Baramati Branch for supply to societies (at cost)	..	9,621 5 6
Loan advanced to societies.	..	13,73,878 10 3
Suspense	..	5,261 0 2
Interest receivable on loans	..	64,044 4 0
Cash with Bank of India, Limited, in current account		74,097 5 3
Cash at the Head Office ..	..	4,542 7 6
Cash at the Branch ..	..	38,763 6 11
Total ..	..	15,72,042 9 7

4. *Composition of working Capital.*—14,000 shares of Rs. 50 each have been issued and subscribed, and Rs. 25 have been called up on each share. Their present market price is quoted slightly above par. The bank is empowered to issue debentures up to the value of 3 times the paid-up share capital subject to a maximum of 20 lakhs, and on these debentures Government guarantees a rate of 4 per cent., until they are redeemed. A sinking fund has been provided for at a rate which would entail the extinction of all debentures within not more than 41 years of their issue. As there are constant fluctuations in the demand, the bank would be unable to arrange that the whole of its permanent capital

should always be profitably employed, and therefore maintains a margin of deposit capital intended to meet the gradual growth of business until it is satisfied that the increase is permanent. The average rate paid on these deposits is $4\frac{2}{3}$ per cent.

5. *Employment of Capital.*—Loans are made to societies for periods varying from 9 months to 10 years at a rate of 7 or $7\frac{1}{2}$ per cent. according to the character of the borrowing society. The security taken is usually a bond of the society in which the annual instalments of repayment are laid down. In some cases, where the society is bound by its bye laws to take mortgage security from its borrowers, these deeds are also deposited in the Provincial Bank as collateral security. Cash credits are given in one or two cases. The rate of interest chargeable on loans is limited by the agreement with Government to a maximum of 8 per cent.

6. *Reserve Fund.*—In view of the existence of a Sinking Fund the bank has been exempted from the provisions of the Act requiring it to carry 25 per cent. of its profits to reserve. However, it has formed a small reserve of Rs. 2,700 to meet possible bad debts and Rs. 2,000 to meet possible legal expenses.

7. *Superfluous Funds.*—The slack season of the bank, April to June, corresponds with the busiest season in the Bombay market. The Directors, being personally connected with many of the Bombay banks, are able under certain restrictions to use the money profitably on short deposit. Fluid Resource is provided by the Directors by transfer when needed from other concerns controlled by them.

8. *Division of Profits.*—Since the establishment of the bank a dividend has been paid at 6 per cent. under the agreement with Government. Half of the profits in excess of the amount needed to pay this rate are refunded to borrowing societies in the form of a rebate of interest on loans.

9. *Audit and Supervision.*—A special auditor has been retained under the Registrar to audit this and other Central Societies at their own expense. The Provincial Bank is also audited by an Incorporated Accountant for the satisfaction of the shareholders. It does not itself undertake the audit of any other societies.

B.—The Central Banks

10. *The System in Force.*—No uniform Central Bank system has been evolved in the Presidency. There are 2 ' mixed ' Central Banks, which are in fact overgrown urban banks which are lending out more than half of their funds to registered societies in their districts, and one ' pure ' Central Bank with 23 constituent societies. Each Central Bank appoints and maintains its own inspector, who visits societies not only to assess credit but for the purposes of general supervision. The two ' mixed ' banks comprise 247 individuals and 42 societies among their members. Societies are accorded special representation on the Board of Directors. The area covered by each of the banks is a district. Credit is assessed by the directors from their personal knowledge and on the report of the inspector and is fixed on a consideration of the general management of a society and the character of its members.

11. *Constitution and Management.*—The Central Banks approximate to the 'capitalistic' type. The bye laws are so framed that the societies' representatives are in the minority. The 'pure' type is organised on much the same plan as the 'Khelar' societies of Bengal. There are no preference shares and the dividend is limited by rule to 9 per cent. The shares vary from Rs. 20 to Rs. 50 and are fully paid up.

12. *Assets and Liabilities.*—The combined balance sheet of these four banks for 1913-14 was as follows:—

Assets	Rs.	Liabilities	Rs.
Cash in hand and bank	44,899	Loans and deposits from non-members. .	59,218
Investments	476	Loans and deposits from societies ..	2,920
Loans due by members	56,618	Deposits of members	1,15,002
Loans due by societies	1,40,017	Share capital	58,620
Interest due to banks	6,627	Interest and dividend due by banks ..	4,760
Other items	51	Cost of management due	246
		Reserve Fund	2,501
		Total ..	2,43,267
		Profit ..	+5,321
Total ..	2,48,588	Total ..	2,48,588

13. *Composition of working Capital.*—The Central Banks raise the whole of their capital locally and do not depend at all on the Provincial Bank. The rates offered on loans and deposits from members and non-members vary from 5 to 6¼ per cent. The deposits are all local in character and the bulk of them are fixed for 1 year. None of the Central Banks have yet entered into any relation with any joint stock bank.

14. *Employment of Capital.*—About ⅓ of the working capital is employed in loans to individual members at rates varying from 8 to 9⅜ per cent. More than ½ of the working capital is invested in loans to societies, affiliated or not, at rates varying from 6½ to 8 per cent. The Banks have received a general sanction from the Registrar to grant loans to all societies within their areas, up to the maxima allowed in the societies' bye laws. Loans are advanced for periods extending from 1 to 5 years, and are made on the security of an ordinary bond. Repayments up to date have been fairly punctual.

15. *Reserve Funds.*—Reserves are growing slowly and at present represent less than 2 per cent. of the working capital. This is partly due to the narrow margins on which these banks work and partly to the high proportion of fluid resource which they maintain. Reserves are not at present separately invested.

16. *Superfluous Funds.*—The Central Banks do not yet use the Provincial Bank as a balancing centre, and owing to the fact that the demand for money always exceeds the supply, have not yet been faced with the problem of finding profitable investment for surplus funds.

17. *Division of Profits.*—Dividends have recently been limited by the Local Government to 9 per cent., until the reserve fund amounts to 25 per cent. of the total working capital. The rate of distribution up to date has in no case exceeded 12 per cent.

18. *Audit and Supervision.*—The Banks have up to the last year been audited annually by the ordinary auditing staff of the Registrar. Recently they have been placed

under a special auditor to whose pay they are required to contribute. Each Bank contains at least one honorary organiser on its Board of Directors, who supervises its work and corresponds independently with the Registrar. The Banks do not themselves maintain any staff for auditing their affiliated societies.

III.—BENGAL

A.—Provincial Bank

1. There is at present no Provincial Bank in Bengal, but arrangements are in train for the formation of such a Bank and bye laws have been drafted with this object.

B.—Central Banks

2. *The System in Force.*—There are 33 Central Banks in the Province, and 1,153 primary societies out of a total of 1,627 are returned as affiliated to these Central Banks. The tendency is to aim at one Central Bank for a subdivision.

The Banks deal directly with their affiliated societies except in two districts (Faridpur and Pabna) where Supervisory Unions have been started. There are 7 such Unions covering 126 societies. Each society in a Union must hold at least one share of Rs. 10 and must have one share for each Rs. 100 borrowed by it. The General Meeting of the Union consists of 3 delegates from each society and the Union Committee is composed of one delegate from each society. The expenses of the Unions are met by a cess of ½ per cent. on the working capital of the societies.

The credit of societies is assessed by Central Banks on (*i*) reports made by Honorary Directors of the Banks after such inspection and enquiry as is thought necessary; (*ii*) reports made by inspecting clerks and the last audit memorandum; (*iii*) the statement of assets checked by the inspecting clerk or sometimes by one of the Government Staff; (*iv*) the recommendation of the Organiser or any local Zemindar who is willing to help the movement and (*v*) on the past history of the society and the local knowledge of the Directors. Where there are Unions, the credit of affiliated societies is assessed by the General Meeting of the Union on the strength of personal knowledge and the reports of the Union Staff. The supervision of societies is carried out by Honorary Directors and the paid staff of the Central Bank, or where there are Unions through the members and staff of the Union. New societies are started mainly by the agency of Directors and Honorary Organisers attached to Central Banks.

3. *Constitution and Management.*—Central Banks are of three classes, *viz.* (*i*) central banks which have no shareholders except private individuals. There are only three banks of this class and they will shortly disappear or be converted into banks of a different character; (*ii*) 'central banking unions' of the so-called 'Khelar' or 'pure' type in which societies alone are shareholders. There are 6 banks of this class with 241 societies affiliated to them; (*iii*) 'central banking unions' of the so-called 'Pabna' or 'mixed' type, in which both societies and individuals are shareholders. There are 24 banks of this class with 912 affiliated societies.

The shares in Central Banks vary in size from Rs. 10 to Rs. 50, but in the case of all Banking Unions of the pure type the value of shares is Rs. 10, whereas in the case of

Banking Unions of the mixed type, the commonest value is Rs. 50. Where both individuals and societies are shareholders, the former are preference and the latter ordinary shares, the size of shares in the two classes being ordinarily the same. As societies are not entitled to get loans amounting to more than 10 times the value of shares held by them, the number of ordinary shares tends to increase. A direct and organized effort is made to keep the number of authorized preference and ordinary shares equal, but in practice the preference shares preponderate in most cases. The liability of shareholders in the 'mixed' type of bank is ordinarily limited to the nominal value of their shares, while in the 'pure' type it is generally five times that sum. There is no uniform principle upon which calls are made, and sometimes as little as Rs. 2 per share has been called up. The system of guarantors is unknown except in one or two cases.

In the 'mixed' banks half the Directorate is appointed by societies and half by preference shareholders. Under the Directors there is generally an Honorary Secretary, a paid clerk for office work, and one or two inspecting clerks. The District or Sub-divisional officer is usually the *ex officio* Chairman. The field staff receive pay at various rates from Rs. 15 to Rs. 100 per mensem and the total cost entailed by establishment and contingencies is Rs. 25,440, representing .77 per cent. of the working capital. These Central Banks no longer receive any Government subvention.

4. *Assets and Liabilities.*—The combined balance sheet of the Central Banks for 1913-14 was as follows:—

Assets	Rs.	Liabilities	Rs.
Cash in hand and at bank	1,25,131	Loans and deposits from non-members..	22,41,199
Investments	17,942	Loans and deposits from other societies.	1,33,877
Loans due by members	62,196	Loans from Government	9,800
Loans due from borrowing societies	31,01,490	Deposits of members	4,44,450
Interest due from borrowing societies	1,09,013	Share capital	3,83,555
Stock in hand	2,440	Interest and dividend due by banks	73,392
Other items	3,704	Cost of management due	4,487
		Other items	11,737
		Reserve Fund	35,658
		Total	33,38,155
		Profit	+83,761
Total	34,21,916	Total	34,21,916

5. *Composition of Working Capital.*—The share capital represents 11.6 per cent. of the liabilities on borrowings (including members' deposits).

There are practically no Debentures in any of the Central Banks.

The deposits are mainly local, but include some Calcutta money. They are usually obtained on the condition that the depositor gives a certain prescribed notice of withdrawal and the period of notice varies considerably. The ordinary rates lie between 6¼ and 7½ per cent.

Loans are taken from Joint Stock Banks and individuals in Calcutta, chiefly at the instance of and on the information of the Registrar. The Bank of Bengal however requires guarantors. The loans from Joint Stock Banks and the Bank of Bengal are nominally at call but as a rule are for a year by arrangement. The Alliance Bank of Simla

has given cash credits to five Central Banks amounting to 6 lakhs at 7 per cent. and the Bank of Bengal has given two cash credits aggregating ½ lakh at Bank rate on guarantee.

6. *Employment of Capital.*—Loans by the Banks to individuals are now practically obsolete, and Banks lend to societies only. The credit of societies is assessed in the manner described in paragraph 2 above and the Registrar controls drawings by societies only in so far as a maximum borrowing power is fixed in the bye laws. The loans are generally for a period of 3 or 4 years and repayable in instalments. Pro-notes are taken as security in the majority of cases. Several Central Banks lend money against instalment bonds. The interest charged runs from $9\frac{3}{8}$ to $10\frac{15}{16}$ per cent. and there is a strong tendency to reduction in the rates. Cash credits are given to societies by one Bank only.

Repayments of loans to societies are generally made after the jute and paddy harvest. Punctuality has been the rule and the sums overdue at the end 1913-14 were not large.

7. *Reserve Funds.*—These represent 1 per cent. on the liabilities. Their growth is difficult to gauge owing to the recent large increase in the number of Central Banks, and till recently there was no definite rule as to the manner in which they should be invested. The Central Banks have been instructed to invest the whole of their Reserve Funds in a fluid form. The reserve fund with the share capital, paid and unpaid, represents 12.6 per cent. of the liabilities or borrowings (including members' deposits).

A good proportion of the Reserve Fund is in the Post Office Savings Bank, but there is no rule regarding the amount of capital which shall be kept fluid. It is not known how much of the cash credits or of the amount invested is held in a readily realisable form.

8. *Superfluous Funds.*—There is no marked slack season in the Province and any surplus held by a Central Bank is as a rule quickly utilized in its business.

9. *Division of Profits.*—Dividends on shares are limited by the Local Government to 12½ per cent. Several of the banks maintain also building and education funds.

10. *Audit and Supervision.*—The Government maintains an auditing staff of 10 men costing Rs. 1,380 per mensem and it is intended that there shall ultimately be one "Inspector" for each district with a staff of cheap auditors maintained by contributions from societies under him. The Central Banks maintain a staff also for inspecting societies and in the case of long started Central Banks Government assist them by meeting the cost of the staff so long as they are not in the position to defray the expenses from their profits.

The audit of the Central Banks is done by the Registrar or by Government Auditors, and not by outside Accountants.

IV.—BIHAR AND ORISSA

A.—Provincial Bank

1. *The System in Force.*—The Provincial Bank, which was registered as recently as April 1914, is designed to deal exclusively with Central Banks, but it may, with the sanction of the Registrar, make loans to primary societies in areas where there is no

Central Bank. At the time of the Committee's visit on December 11th it had opened cash credits in favour of 17 Central Banks at the rate of 7 per cent.

2. *Constitution and Management.*—The management of the Bank is in the hands of 12 Directors, of whom 7 are also Directors of different Central Banks. The Registrar is an *ex officio* Director and with two other Directors resident at Bankipore serves on the working committee of the Bank, to which most of the Director's powers have been delegated.

The shares of the Bank are of two classes (1) 4,000 Guarantee shares of Rs. 100 each, fully subscribed, on 3,000 of which Rs. 5 per share has been paid up. The remaining portion is a reserve liability which can only be called up to meet the claims of a Presidency or Joint Stock Bank, in two instalments of Rs. 45 after two months' and the remaining Rs. 50 after five months' notice, (2) 600 Preference shares of Rs. 500 each, of which 374 have been subscribed, 170 by private persons and 204 by Central Banks and Societies. On each of these shares Rs. 100 has been paid up, Rs. 100 may be called up at any time at the option of the Directors and Rs. 300 form a reserve liability only enforceable in the event of liquidation of the Bank.

The Bank is a 'Book Bank' and keeps its cash with the Bank of Bengal. It maintains a full-time Secretary but no field staff. The cost of mangement does not yet exceed Rs. 100 per month.

3. *Assets and Liabilities.*—As the Bank has been recently started, no balance sheet can usefully be given.

4. *Composition of Working Capital.*—In addition to the paid-up share capital of Rs. 52,400, the Bank has received Rs. 1,37,700 on fixed deposit from the public at 4½ to 5 per cent., Rs. 14,000 on current deposit from Societies at 3 per cent., and Rs. 255 on savings deposit at 4 per cent. It has also a cash credit nominally terminable at will with the Bank of Bengal of 4 lakhs at ½ per cent. below Bank rate, subject to a minimum of 3 per cent., of which Rs. 1,49,854 had been drawn on December 11th. The security for this cash credit consists of promissory notes signed by the Provincial Bank and endorsed by the four guarantors.

5. *Employment of Capital.*—The funds are utilised in loans to Central Banks only at an ordinary rate of 7 per cent. Their credit is assessed by the Registrar on his general personal knowledge. On December 11th cash credits of 3 lakhs had been opened in favour of 17 Central Banks terminable at will of which Rs. 1,98,603 had been drawn. In addition Rs. 1,51,230 had been lent out on bonds for fixed periods.

6. *Reserve Fund.*—None has yet been formed, as the bank only commenced working a few months ago.

7. *Superfluous Funds.*—Any funds received are usually used in reducing the overdraft with the Bank of Bengal.

8. *Division of Profits.*—The Guarantee shares carry a cumulative preference dividend of 6 per cent. on the paid-up portion and a commission of ½ per cent. on the reserve liability. Preference shares carry a dividend of 6 per cent. on the paid-up portion. If after meeting these charges, excess profits are available for distribution, the two classes of shares rank equally for an enhanced dividend up to a maximum of 12½ per cent.

9. *Audit and Supervision.*—The accounts of the Bank were audited in September by a Corporate Accountant from Calcutta.

B.—CENTRAL BANKS

10. *System in Force.*—On May 31st, 1914, there were 12 Central Banks in existence, of which 564 Agricultural Societies and 14 Non-agricultural Societies were members as well as 564 individuals. The Central Banks deal with primary Societies direct. The credit of Societies is assessed by Central Banks relying on (1) the personal knowledge of Directors who are expected to tour in their districts and to make local enquiries, and (2) on the reports of the paid staff of the Central Banks who are often sent to make enquiries into loan applications. In the course of their tours Directors and Honorary Organisers and the paid staff of the Bank carry out the duties of supervision, and the two former undertake propagandist work in the new areas.

11. *Constitution and Management.*—On formation Central Banks as a rule issue 1,000 Preference shares of a value of Rs. 25 each, which may be subscribed by individuals, and 1,000 Ordinary shares of a value of Rs. 10, which are reserved for Societies. As Societies are required to subscribe shares in a certain proportion to their borrowings, the number of Ordinary shares tends constantly to increase. On both classes of shares it is the ordinary practice at the start to call up only 1/5th of the nominal value and so far no bank has called up more than 2/5 of it. The shares in nearly every case carry a multiple liability, that of preference shareholders being usually double, and that of the ordinary shareholders varying from five to ten times the face value.

The individual Preference shareholders and the societies which are Ordinary shareholders are each entitled to elect half the Board of Directors, and in addition the District or Sub-divisional Officer is ordinarily a Director. The area covered by a Central Bank is never greater than a civil sub-division, and on May 31st only 8 out of 21 districts had Central Banks.

In one or two banks a Manager is employed, and in some others there are paid Assistant Secretaries. One of the chief duties of these officers is inspection of the affiliated societies. A sufficient staff of Inspecting clerks usually 1 to every 50 Societies, is maintained. The expenses of management borne by the 12 Central Banks is Rs. 10,429 or 1.3 per cent. of their total working capital.

12. *Assets and Liabilities.*—The combined balance sheets of the 12 Central Banks stood as follows:—

Assets	Rs.	Liabilities	Rs.
Cash	86,337	Loans and deposits from non-members..	3,98,686
Investments	17,500	Loans and deposits from societies ..	39,636
Loans due by societies	7,31,523	Loans and deposits from members ..	2,34,407
Interest due by societies	9,880	Share capital	1,14,983
Value of stock	3,875	Interest and dividend due to societies	19,092
Other items	4,311	Cost of management due	690
		Other items	2,646
		Reserve Fund	14,863
		Total ..	8,25,003
		Profit ..	+28,423
Total ..	8,53,426	Total ..	8,53,426

13. *Composition of Capital.*—The total amount borrowed by the Banks is Rs. 6,72,729. The share capital *plus* the reserve funds, but excluding building funds, etc., constitutes 19 per cent. of this amount. Deposits are raised locally and Central Banks on entering into relations with the Provincial Bank as a rule are required not to accept deposits from outside their own districts. The reserve funds of primary Societies are not ordinarily deposited in the Central Banks. The usual rates offered on deposits are 7 or 7½ per cent. All deposits are arranged to mature on May 31st, and are taken as renewed unless notice of withdrawal is received before March 31st.

14. *Employment of Capital.*—Loans are granted to Societies but never to individuals. The amount outstanding with them was Rs. 7,31,523, and the rate charged invariably 12½ per cent. Of the total amount due from Societies Rs. 33,703 or 4.5 per cent. are shown as overdue. Loans are granted on bonds in which the instalments of repayment are fixed. The average period seems to be from 3 to 4 years; and is varied according to the purpose of the loan.

15. *Reserve Fund.*—Apart from the profit for the year 1913-14, the total reserve fund is shown as Rs. 14,863. A large part of it is invested in the shares of the Provincial Bank, and the intention is that it should be held separately from the working capital. Central Banks do not grant cash credits to rural Societies and have made no definite arrangements for the provision of a fluid resource.

16. *Superfluous Funds.*—When funds are received which cannot be immediately utilised, they are generally devoted to reducing the drawals on cash credits with the Provincial Bank.

17. *Division of Profits.*—The universal rate of dividend is 9⅜ per cent. There is no dividend equalisation fund or contingency fund; but in some Banks building funds have been started, aggregating Rs. 7,169.

18. *Audit and Supervision.*—All audit is carried out by the Registrar and his staff, and Central Banks are constantly inspected by the Registrar and the Deputy Registrar. The Central Banks employ a paid staff for supervision but they have nothing to do with the audit of their affiliated Societies.

V.—UNITED PROVINCES

A.—Provincial Bank

There is not at present any Provincial Bank in the United Provinces, and there is some local diversity of opinion regarding the advisability of starting such a Bank.

B.—Central Banks

1. *The System in Force.*—There are 55 Central Banks; those in district headquarters are spoken of as " district " banks and the rest as "central" banks. Twenty of these banks occupy a position of mutual independence; but twelve banks, mostly at district head-quarters, have other central banks, 23 in number, affiliated to them and dependent on them for support. Of the 2,745 primary credit societies in the Province, 2,497 are affiliated to one or other of the 55 central banks. The district banks ordinarily deal each with one district, and the others with smaller areas, or tehsils.

There is no bank between the district or central bank and the primary societies, except in the cases above mentioned where a " central " bank is subordinate to a " district " bank. The credit of the societies is assessed by the paid staff of the central bank and by honorary workers and except in entirely new areas the same agency sees to the supervision of existing, and the starting of new societies. Central banks are not formed until a suitable number of primary societies are in existence, which can be affiliated to them. They receive loans from district banks up to from 4 to 10 times the nominal value of their shareholding in such banks.

2. *Constitution and Management.*—In 41 out of the 55 banks, both individuals and societies are admitted as shareholders. As a rule the District Officer is the President of a district bank.

In 14 banks societies alone are shareholders.

Individual shares are in most cases fully paid up, there being a reserve liability in some of the older banks on such shares. Societies' shares in most banks carry a reserve liability. There is no system of guarantors in force.

In the banks where societies alone are shareholders, the management is entirely in their hand. In banks where individuals also are shareholders, of the directors a proportion fixed by the bye laws, usually a quarter, are representatives of the societies. The remainder are elected by the individual shareholders. The directors are generally professional men such as lawyers, landholders and retired or active Government servants and they have under them an office and field staff costing Rs. 1,06,271 per annum which is something less than Rs. 2,000 per annum per bank and represents 1.8 per cent. of the working capital.

Some of the older central banks are converted town banks or urban societies. They took over the loans issued to the latter by Government under the Resolution of 1904 and owed Rs. 52,000 altogether in June 1914 under this head. No loans are ordinarily granted by Government now. In view, however, of the difficulties occasioned by the war following a severe drought and famine in some districts a special loan of Rs. 3 lakhs was sanctioned by Government in October 1914 and of this Rs. 2,55,000 were utilized and Rs. 1,76,000 had already been repaid on the 1st May 1915.

3. *Assets and Liabilities.*—The combined balance sheet of the central banks for 1913-14 was as follows :—

Assets	Rs.
Cash in hand and at Bank	3,63,842
Investments (Government Paper, Post Office Savings Banks, Joint Stock Banks approved by Registrar and a small amount in other Co-operative Banks)	3,84,553
Loans due by members	3,36,778
Loans due by societies	47,96,808
Interest due to Banks	1,98,311
Stock in hand	14,896
Other items	80,118
Total ..	61,75,306

Liabilities	Rs.
Loans and deposits from non-members..	33,71,065
Loans and deposits from Central Banks	7,50,000
Loans and deposits from societies ..	22,837
Loans from Government	52,487
Deposits of members	6,63,431
Share Capital	6,30,631
Interest and dividend due by societies..	1,21,596
Cost of management due	3,789
Other items	1,07,817
Reserve Fund	3,11,477
Total ..	60,35,130
Profit ..	+1,40,176
Total ..	61,75,306

4. *Composition of working Capital.*—The share capital represents 10·4 per cent. of the liabilities. As member-societies are paying the calls on their shares in half yearly instalments, the share capital is gradually increasing even in older banks. A class of capital known as debentures at 5½ to 7 per cent. is found in some banks, but these debentures are redeemable after 5 years and having no mortgage security they differ little from long term deposits.

Deposits are obtained mostly from residents in the area of operations of a bank but outside deposits are also accepted. Deposits received from all sources are often for the harvest (8 months) or one year (ending with a harvest); including debentures 42 per cent. are for over a year, and the rates vary from 5 to 7 per cent.

Loans from joint stock banks are applied for when occasion requires, and are given in the form of cash credits. For instance, credits of Rs. 1·55 lakhs have been sanctioned in this way by one branch of the Allahabad Bank to four banks besides transactions with other branches of this bank: Rs. 10,000 by the Oudh Commercial Bank, and Rs. 40,000 by the Benares Bank. The banks as rule can demand repayment at three to six months' notice and repayment can be made at any time at the discretion of the central bank. The rates vary from 6 to 9 per cent. and no specified portion of these advances is earmarked for fluid resource. The advances are made on the pro-notes of societies or on fixed deposits: on the former a 25 per cent. margin is required and on the latter loans are made up to practically the full limit of the deposit. In making these advances the joint stock banks deal direct with the societies and act on their examination of balance sheets and not on any recommendations made by the Registrar, though his sanction is necessary.

5. *Employment of Capital.*—Loans to individuals are now discouraged and practically all loans are made to societies only. In granting loans to primary societies the central banks depend on a system of normal credits revised annually. These credits are usually 50 to 75 per cent. of the normal credits fixed by primary societies for their own individual members. In many districts these credits are in the case of occupancy tenants a multiple of 3 or 4 times the rent paid to the landlords, in others the earning capacity, rental and current needs of the members are taken into account. The principles guiding the fixing of normal credits are approved by the Registrar but the actual details are fixed by the banks without his instruction and the issue of the loans is checked by the departmental officials and the bank's own staff. The periods are fixed according to the purpose for which the loan is required and the loans are repayable in instalments. Pro-notes or bonds are the only security taken and the average rate of interest charged is 12 per cent. Cash credits are not given by central banks to societies, unless they are too remote to make a separate application for every loan without difficulty.

Repayments are generally after harvest and usually punctual, except in the case of a very few old-type societies. Where forced to recover by process, central banks have preferred to realize through the law courts rather than by applying for liquidation.

6. *Reserve Funds.*—These represent 5·1 per cent. of all liabilities and with the share capital added 15·9 per cent. of total liabilities or 18·9 per cent. of borrowings including interest due. All Banks have also contingency or Bad and Doubtful Debt Funds. More than half the net profits go annually to Reserve Funds and they are rapidly growing.

There is no general rule for the maintenance of fluid resource and the cash credits with joint stock banks* are except in times of stress seldom fully drawn upon. The reserve funds of central banks are deposited with joint stock banks or held in Government Paper and in other forms outside the movement, approved by the Registrar, and at times with the previous approval of the Registrar are regarded as security for advances.

7. *Superfluous Funds.*—The slack seasons are June-September and November-February. Deposits are not accepted if there is no opening for immediate investment. Overdrawals from joint stock banks are reduced or paid off when realizations are made.

8. *Division of Profits.*—Dividends on shares are limited by the Local Government to 10 per cent., or in some cases 12 per cent., and the actual dividend on preference shares is ordinarily 7 per cent. Many banks have good buildings and others are accumulating Building Funds.

9. *Audit and Supervision.*—The audit and supervision of societies under central banks is done partly by the Government staff and partly by the staff entertained by the central banks.

The audit of the central banks themselves is done generally by the Government staff, but in some cases outside professional auditors have been employed, with the approval of the Registrar.

VI.—PUNJAB

A.—Provincial Bank

1. There is not at present any Provincial Bank in the Punjab.

B.—Central Banks

2. *The System in Force.*—There are 38 Central Banks in the Province and the number of affiliated societies (by which are understood societies in the same District as a Central Bank which borrow money from the Central Bank or have shares in it) is returned at 1,903, of which 1,886 are agricultural credit societies. The Central Banks proper serve, except in four cases, the area covered by an administrative district, while the 'Unions' (see below) deal with areas of varying size, arbitrarily selected.

There is no intermediate link between the Central Banks and the societies. The Central Banks proper give out loans to societies on the recommendation of the Registrar and this recommendation is in turn based on reports made by Sub-Inspectors and Inspectors, who draw up rough estimates of the value of the property of societies and work generally on personal information. The power of recommending small loans direct to the Banks has been delegated to Sub-Inspectors and Inspectors. In the case of the 'Unions' the Union itself decides whether to make a loan to a society, acting either on its own local knowledge or on the Registrar's advice. Supervision of societies is carried out to some extent by Directors of Central Banks and by Members of the Union Committees, acting usually as Honorary

* (*N.B.*—The circumstances of the winter of 1914-15 were exceptional. It is because central banks in the United Provinces do not in normal seasons utilise the cash credits granted by joint stock banks that the latter are so reluctant to grant them.)

Sub-Inspectors, but the bulk of the supervision rests with the paid Inspecting Staff. New societies are started spontaneously in imitation of existing societies, not through the agency of the Central Banks; and Central Banks are not formed until a sufficient clientele of village societies is already in existence.

3. *Constitution and Management.*—The Central Banks are of two classes, *viz.*, (*i*) the Central Banks proper in which individuals hold all or most of the shares, and (*ii*) the Central Banking Unions in which all the shares are held by societies. There are 18 banks of the former class and 20 of the latter. Out of the 18 Central Banks there are six in which societies are at the present time admitted as shareholders, 201 societies holding shares against 1,492 individuals. There is no special class of shares set apart in these banks for societies, but in some Central Banks a number of ordinary shares are reserved for acquisition by societies and in others it is open to societies to purchase shares or not as they please in their individual capacity. The number of societies borrowing from or holding shares in the first class of Central Banks is 1,121 and in Unions 771.

All shares are ordinary and in Unions they are fully paid up from the beginning.

The Committee of Management in the Unions is composed entirely of societies' representatives, but on the Central Banks proper there is no special provision for the representation of the societies. The real work in the Central Banks is done by the Managers, who are usually local professional men of the middle class working without remuneration. The banks have no inspecting staff under their own direction but contribute to the pay of the ordinary inspecting staff. The total cost entailed by establishment and contingencies is Rs. 11,944 or ·29 per cent. of the working capital. No Government aid has been received by these societies until the beginning of this year when a special loan of one lakh was distributed among 6 societies in view of the stress caused by the war. Of this loan Rs. 2,000 had already been repaid by 1st April.

4. *Assets and Liabilities.*—The combined balance sheet of both classes of Central Banks for 1913-14 was as follows :—

Assets	Rs.	Liabilities	Rs.
Cash in hand and at Bank	2,29,951	Loans and deposits from non-members..	18,24,672
Investments	13,964	Loans and deposits from other societies.	5,06,959
Loans due by societies	40,20,722	Deposits of members and member societies	11,69,369
Interest due from debtors	65,824	Share Capital	6,19,476
Stock in hand	1,456	Dividend and interest due to creditors	84,672
Other items	268	Cost of Management due	2,007
		Other items	1,218
		Reserve Fund	33,358
		Total ..	42,41,731
		Profit ..	+90,454
Total ..	43,32,185	Total ..	43,32,185

5. *Composition of Working Capital.*—The share capital represents 13·9 per cent. on the liabilities: the percentage in the Central Banks of the first class being 20·8 and in the Unions 11·0. There are no debentures.

The deposits are largely, but not entirely local, being mainly supplied by the middle classes. The reserve funds of societies are not deposited in the banks except so far as they are invested in Central Bank shares. The periods for which deposits are received vary considerably but the ordinary rate of interest is 6 per cent. In the large Jullundur Central Bank $4\frac{1}{2}$ per cent. is given for a six months deposit and an extra $\frac{1}{2}$ per cent. for each additional six months up to a limit of 6 per cent.; and this is probably the most favourable rate at which money can be obtained.

Loans are taken by several banks from the Bank of Bengal, the Alliance Bank of Simla and the Allahabad Bank, the sums at present outstanding from the three banks in question being Rs. 5,03,224. The advances from the Bank of Bengal and Allahabad Bank are in the form of cash credits : those from the Alliance Bank in that of definite loans. The Bank of Bengal requires as security a bond and a deed of guarantee from two or more approved sureties, the Alliance Bank advances on the security of two or more names, and the Allahabad Bank on the bonds of village societies. The rates charged by the banks are 6 per cent. to 7 per cent. and in the case of the cash credits no fixed period of notice is prescribed.

6. *Employment of Capital.*—Loans are not now granted to individuals by any of the Central Banks but are advanced to societies only. The credit of societies is assessed in the manner described in paragraph 2 above. No society can take a loan except with the Registrar's sanction. Consequently the Registrar or his staff under powers delegated by him to them is responsible for all recommendations for loans and the Central Bank rarely enquires into and more rarely negatives such recommendations. A Union may also if it wishes, grant a loan on its own knowledge or enquiry. The loans are generally for three years, with or more frequently without instalments for repayment. The loans are secured by bonds only, mortgages being unknown, and the rate is always 8 per cent. Cash credits are not given to societies.

Loans are made for periods of one, two, or more usually three years. Some Central Banks require repayment in six-monthly instalments. In the latter case postponements are granted when necessary. When the period of a loan expires, Central Banks seldom require repayment provided interest is paid punctually and the working of the borrowing society is satisfactory.

7. *Reserve Funds.*—The Reserve Fund is at the discretion of the banks to invest it as they please, and Rs. 13,964 is returned as separately invested, and this amount has subsequently been increased to Rs. 16,000. Since the preparation of the balance sheet the total reserve fund of all banks has risen to Rs. 55,779. The reserve fund, as entered in the balance sheet, together with the share capital represents 18 per cent. of the liabilities on borrowings (including members' deposits).

8. *Superfluous money.*—Repayments of loans are almost invariably made at the two harvests, *viz.*, in June or July and in December or January. Fresh loans also are usually taken at the time of harvest, though money is also required at different times throughout the year. There is no pronounced slack season.

9. *Division of Profits.*—Dividends on shares average 10 per cent. in Central Banks proper and 8 per cent. in Unions. They are subject in either case to a maximum limit of 12 per cent.

10. *Audit and Supervision.*—The Government maintains an auditing staff of 19 men costing Rs. 8,468 per mensem and the societies maintain a staff for supervision consisting of 29 men at a cost of Rs. 1,060 per mensem.

The Central Banks which had previously been audited by the Government staff were audited last year by two outside auditors, one of whom was licensed under the Companies Act.

VII.—BURMA

A.—Provincial Bank

1. *The System in Force.*—The Upper Burma Central Co-operative Bank which was registered in October 1910 is not in the strict sense of the term a Provincial Bank but it fulfils many of the functions of such a Bank. It supplies money to two Central Banks in the Pakkoku and Minbu Districts, but outside those districts it deals with the Societies. Some 900 Societies are affiliated to it and its operations extend to the whole Province.

The credit of the Societies is assessed by the Societies in groups known as Unions. There are 90 such Unions to which all but 206 of the Societies in the Province are affiliated. A Union as a rule consists of 5 to 35 Societies within a maximum radius of about 8 miles. It is managed by (i) a Committee consisting of the Chairman and one or more Vice-Chairmen, (ii) by the Union General meeting at which each society is represented by two delegates. Its objects are firstly mutual inspection and assessment of credit, and secondly mutual guarantee. The means by which the first object is secured are (*a*) by the employment of a Union clerk, generally not a whole-term employee drawing Rs. 5 to Rs. 15 per month, whose duty it is to keep the Union accounts and records, and to train and help the Secretaries of all Societies in the Union, (*b*) by arranging that members of the Union Committee should inspect and visit affiliated Societies, by giving warnings and by issuing any general regulations that seem desirable, (*c*) by contributing towards the maintenance of a Union Inspector, a whole-time officer on about Rs. 50 per month, serving 5 to 10 Unions, whose business it is to inspect Societies on the spot, to help in correcting faults, and to send inspection notes to the Union Committee for their information, (*d*) by considering indents for loans from affiliated societies at a Union General meeting and sanctioning such loans as in each case may appear to the meeting to be suitable. The Unions do not themselves handle any cash. Funds for the maintenance of this staff are obtained by levying a Union rate which varies from 4 to 12 annas per cent. per annum on the working capital of constituent Societies. Mutual guarantee is effected by the rule that all Societies constituting the Union shall be liable for any default by a Society in the repayment of a loan recommended by the Union to the extent of the maximum amount of loans from non-members held by each of them in the course of the preceding year. All applications for loans pass through the Unions to the Registrar who can check their discretion and see that such Union gets its fair share of funds available in the Central Bank. The Registrar informs the Provincial or Central Bank of the amounts sanctioned by him and directs it to make a remittance accordingly.

The Provincial Bank exercises no audit or supervision. New Societies are started within existing Unions under the auspices of the Unions, and in fresh areas under the control of the Government staff.

2. *Constitution and Management.*—The 900 Societies hold 1,361 shares and 437 individual members hold 1,250 shares. The shares are of Rs. 100 each the former class being half paid and the latter fully paid. All Societies can vote as shareholders at general meetings and all Union Chairmen (some 90 in number) are *ex officio* members of the Committee. The Directorate consists of the individual shareholders and such of the Union Chairmen as may be at Mandalay. The current work is done by a paid Manager, a European lawyer, on about Rs. 1,000 per mensem with 5 clerks. There is no field staff and the management altogether costs about Rs. 20,158 per annum or .8 per cent. on the working capital. The Bank receives no subvention from Government.

3. *Assets and Liabilities.*—The balance sheet on 31st January 1915 was as follows:—

Assets	Rs.	Liabilities	Rs.
Cash in hand	52	Paid up share capital, Individuals ..	1,25,000
Loans to societies	20,94,250	Paid up share capital, Societies ..	68,150
Investments	3,07,488	Fixed deposits	20,73,619
Interest due	66,414	Savings Bank deposits	1,61,812
Cash credit with Central Banks ..	79,901	Interest on deposits	60,834
Cash credit with Joint Stock Banks ..	26,103	Cost of management due	441
Stock in hand	942	Other items	3,293
Other items	5,650	Reserve	54,824
		Total ..	25,47,973
		Profit ..	+32,827
Total ..	25,80,800	Total ..	25,80,800

4. *Composition of Working Capital.*—The paid-up share capital represents 8 per cent. of the liabilities to depositors and Joint Stock Banks. There are no debentures nor are any proposed.

The deposits are largely from Europeans and from religious and other funds : and they include ¼ of the Societies' reserve funds which have to be deposited annually in the Savings Bank Fund at 5 per cent. The fixed deposits are from 1 to 7 years : 5.15 lakhs falling due in 1915, 5.33 in 1916, 3.06 in 1917, 2.90 in 1918, 2.86 in 1919 and .80 in 1920. 52 per cent. of these deposits are at 7 per cent., 25 per cent. at 6 per cent. and 9 per cent. at 5 per cent., the remainder being at intermediate rates.

There are arrangements with the National Bank of India and the Bank of Bengal for loans on the security of Government paper when required. There is also a cash credit of 30,000 with the National Bank of India, secured by Government paper at 7 per cent.

5. *Employment of Capital.*—Loans are not made to individuals but to Societies only. The Unions hold their chief meetings in March when the loans to be made for the next cultivating season are decided and repayments are considered and in December and January when repayments due by the Societies are settled. Any Society classed as A by the Auditor (at present 54 in number) can obtain a cash credit and any Union of which the majority of affiliated Societies have been classed as A or B (at present

4 or 5 in number) is entitled to receive a cash credit which it may distribute to its members at its discretion. When there is no Union the Government staff makes the necessary enquiries and the Registrar indents on the Provincial Bank for funds. No period is fixed for a loan but repayments are made according to the repayments made under bye laws by members to Societies and these are carefully checked by the Unions which are liable. The proportion of amounts hitherto repaid by Societies to the Provincial Bank to the amount out on loan on the first day of the year is about 45 per cent. The loans are at 9 per cent. and on promissory notes, it being tacitly understood that recoveries will be in accordance with member's payments.

Repayments are chiefly in March and are punctual. There has been no difficulty as yet. Bad Societies are liquidated by the Registrar but hitherto without loss to the outside public.

6. *Reserve Funds.*—The Reserve Funds represent 2.1 per cent. of the liabilities and with the share capital subscribed amount to 14 per cent. Some two to three-fifths of the net profits go annually to Reserve Fund and are invested in Government paper.

In addition to the Rs. 54,000 Reserve Fund in Government paper, there are 2½ lakhs additional reserve in Government paper and Rs. 26,000 in two Joint Stock Banks to the credit of the Provincial Bank : giving a total fluid resource (on 31st January 1915) of Rs. 3.33 lakhs as against deposits falling due in the twelve months of 1915 of Rs. 5.15 lakhs.

7. *Superfluous Funds.*—The slack period is March to May and superfluous money is then placed in Government paper or in temporary Joint Stock Bank deposits.

8. *Division of Profits.*—The dividend is limited by the bye laws to 30 per cent. but in practice it does not exceed 9 per cent. which is the rate at which loans are made to Societies. There are no Dividend Equalization or Contingent or Building Funds : but there is a Bad Debt Fund of Rs. 7,500.

9. *Audit and Supervision.*—The Bank is supervised and audited by the Registrar, and by a firm of Chartered Accountants. These latter have also helped in the preparation of a system of accounts. Weekly and monthly returns are submitted to the Registrar.

B.—Central Banks

1. Three Central Banks have been registered but only two are as yet in working, *viz.*, those at Pakkoku and Sagu Salin. These are managed on much the same lines as the Upper Burma Central Co-operative Bank at Mandalay but only deal with one district each. The number of Societies affiliated to these two banks is 197.

The Banks deal with their affiliated Societies through Unions in the same manner as the Provincial Bank. The Unions assess the credit of Societies subject to the Registrar's control, and they also supervise existing Societies and start new ones. The Central Banks were started after a considerable number of their affiliated Societies were in existence, and not in anticipation.

2. *Constitution and Management.*—The Pakkoku Bank has 127 member Societies with one share each and 43 individual members with 179 shares. The Sagu Salin Bank has 70 member Societies and 59 individual members. In Pakkoku, to take it as an example, there are 1,000 shares of Rs. 100 each of which 500 are reserved for Societies : these shares are fully paid-up in the case of individuals and Rs. 40 paid-up in the case of societies. There is one vote for each share at general meetings and the directorate consists of seven individual shareholders together with all the Chairmen of affiliated Unions. In the Sagu Salin Bank there is also a Council of Supervision. In neither Bank is there a system of Guarantors and neither is in receipt of any State subvention. They have no field staff, but only a Secretary and a small clerical establishment.

3. *Assets and Liabilities.*—The combined balance sheet of the two Banks for the 30th June 1914 was as follows :—

Assets	Rs.	Liabilities	Rs.
Cash in hand and at Bank	1,01,284	Loans and deposits from non-members..	1,33,290
Investments	55	Loans from Provincial Bank	1,78,920
Loans due by Societies	3,25,112	Loans and deposits from other Societies.	6,000
Interest due to Banks	4,240	Deposits of members	39,637
		Share capital	53,490
		Interest and dividend due by Banks	10,571
		Other items	105
		Reserve Fund	2,651
		Total ..	4,24,664
		Profit ..	+6,027
Total ..	4,30,691	Total ..	4,30,691

4. *Composition of Working Capital.*—The paid-up share capital represents 21 per cent. of the liabilities to depositors and to the Provincial Bank and there are no Debentures.

The fixed deposits in Pakkoku are partly local, but mainly from outside the district and chiefly from Europeans : they include also 25 per cent. of the reserve fund of affiliated Societies. The deposits are from 1 to 3 years and the rates are annually 5, 6 and 7 per cent. for 1, 2 and 3 years respectively, but they ordinarily are kept about ½ to 1 per cent. above the Provincial Bank rate. In the Sagu Salin Bank the sum shown as fixed deposits consists mainly of one deposit of Rs. 1½ lakhs made for 2 years, and includes also ¼ of the reserve funds of Societies which are deposited nominally for 1 year. Of the fixed deposits 68 per cent. are for over 6 months, 14 per cent. for over 1 year, 7 per cent. for over 2 years and 4 per cent. for over 3 years, and the rates of interest are as at Pakkoku.

There are no loans from Joint Stock Banks but cash credits were given by the Provincial Bank to the extent of Rs. 2,10,000 (since reduced) on the security of pro-notes from the Central Banks. The rate charged on the cash-credit is 9 per cent., the same as that obtained on loans to Societies ; this rate is fixed with a view to prevent the undue dependence of the Central Banks on the Provincial Bank as they are nominally on an equal standing with it.

5. *Employment of Capital.*—No loans are given to individuals and loans to Societies are given on the same system as that adopted by the Provincial Bank.

6. *Reserve Funds.*—The surplus assets are still very small and are used in the business of the Banks.

For fluid resource the Banks are dependent on the Provincial Bank which covers with cash-credits the deposits withdrawable and also helps when funds are not sufficient for loans.

7. *Superfluous Funds.*—None are likely at present but if obtained they will be used in reduction of the overdraft from the Provincial Bank.

8. *Division of profits.*—The same maximum limit of 30 per cent. prevails as in the Provincial Bank, and the actual dividends of the last year were 11 and 6 per cent. There are no Dividend Equalization, Contingent or Building Funds.

9. *Audit and Supervision.*—The Banks are supervised and audited by the Registrar and his staff, and the Registrar receives fortnightly returns. In the Pakkoku Bank the Committee take it in turns, two at a time, to inspect work monthly.

VIII.—CENTRAL PROVINCES AND BERAR

A.—Provincial Bank

1. *The System in Force.*—The Provincial Co-operative Bank of the Central Provinces and Berar was registered in April 1912. This Bank is the final link in the chain connecting the village co-operative credit societies with the ordinary money market. It is not intended to supply all the capital required by the movement but to supplement temporary deficiencies of local capital. Central Banks are not at present shareholders in the Provincial Bank, and they are free to deal with the Provincial Bank or not as it suits their convenience. The Provincial Bank does not handle cash, all money being received and disbursed on its behalf by the Jubbulpore Branch of the Allahabad Bank. Cash credits are not granted to Central Banks, but every application for a loan is dealt with on its merits by the Directors of the Bank who have, however, delegated certain definite powers to the Registrar. The Directors have decided that the maximum amount of financial assistance to be granted to any one Central Bank must not exceed five times the Central Bank's paid up share capital plus its separately invested reserve fund plus the separately invested reserve funds of the credit societies affiliated to the Central Bank. The office of the Registrar is at Jubbulpore.

2. *Constitution and Management.*—All the shareholders are individuals, co-operative Central Banks not yet being represented. The authorised capital of the Bank is Rs. 7,00,000 (paid up Rs. 2,92,350) and consists of 600 Founders' shares of Rs. 500 each, carrying interest at 5 per cent. as a first charge on the profits, and 4,000 Preference shares of Rs. 100 each. On the Preference shares a first call of Rs. 5 has been made and paid up, the remaining Rs. 95 being an uncalled liability which may be called up in two instalments within a period of not less than five months. The Preference shares rank for dividend up to 5 per cent. on the paid-up portion immediately after Founders' shares. The holders of Preference shares receive 1 per cent. on the uncalled capital of

guarantee for which they are liable. The Bank receives no financial assistance from Government and is in no way guaranteed by it.

The Board of Directors at present consists of eleven leading gentlemen of the Province including the Local Agent of the Allahabad Bank. No Central Bank is so far represented on the Board but several of the Directors are also on the Managing Committee of Central Banks. The office of the Central Bank is in the same building as that of the Registrar and the Directors have delegated certain powers of executive control to the Registrar. The staff, which is a growing office staff, costs Rs. 2,500 and includes a Manager, who is an Associate of the Corporation of Registered Accountants (Glasgow). The Financial Commissioner, the Commissioners of Nagpore and Jubbulpore Divisions, the Director of Agriculture and the Registrar of Co-operative Societies, Central Provinces and Berar, are entitled to attend general meetings of shareholders and meetings of the Board of Directors, but not to vote.

3. *Liabilities and Assets.*—The Balance Sheet of the Provincial Bank as issued on 30th June 1914 is as follows :—

Liabilities	Rs.	Rs.	Assets	Rs.
Loans and deposits from non-members ..		4,99,791	Value of investments	19,973
Loans and deposits from other societies ..		36,142	Loans due by societies	12,22,449
Cash credit from Allahabad Bank ..		3,52,585	Interest due to societies	10,578
Authorised to Rs. 10,00,000		..	Value of stock in hand	1,220
Share Capital—			Other items	911
Authorised—				
600 Founders' shares of Rs. 500 each	3,00,000	..		
4,000 Preference shares of Rs. 100 each	4,00,000	..		
Total ..	7,00,000			
Subscribed—				
554 Founders' shares of Rs. 500 each	2,77,000	..		
3,130 Preference shares of Rs. 100 each	3,13,600			
Total ..	5,90,600			
Paid up—				
544 Founders' shares of Rs. 500 each	2,77,000	..		
3,135 Preference shares at Rs. 5 each (1st call)	15,675			
Less unpaid 85 shares at Rs. 5 each	425	..		
Total ..	15,250			
1 Preference share (Fully Paid) ..	100	2,92,350		
Interest and dividend due by society ..		28,961		
Cost of management due		3,005		
Other items		1,203		
Reserve Fund, *i.e.*, undistributed profits under Section 33 of Act II of 1912 ..		19,973		
Profit ..		+ 21,121		
Total ..		12,55,131	Total ..	12,55,131

4. *Composition of Working Capital.*—The paid up share capital represents 23 per cent. of the total liabilities. There are no debentures.

Deposits are received from all sources including some public institutions. Deposits are received at 3 per cent. for 6 months, 4 per cent. for 9 months, 5 per cent. for 12 months and over, and at special rates for long periods.

In order to obtain a reserve of fluid cash, the Bank has obtained from the Allahabad Bank a Cash Credit up to 10 lakhs at 6 per cent. per annum on the security of the pro-notes of the Central Banks duly endorsed by the Provincial Bank. The Cash Credit is understood to be repayable within a reasonable period after notice.

5. *Employment of Capital.*—The loans which are made by the Provincial Bank to Central Banks are used by the latter in supplying the wants of the credit societies working under them. Central Banks pay 7 per cent. per annum for the accommodation thus provided and furnish agreements and pro-notes to the Provincial Bank. The Directors themselves fix the maximum amount of money which may be lent to any Central Bank, and in arriving at their decisions they are assisted by the reports of the Provincial Bank inspecting staff and the advice of the Registrar.

Repayments are chiefly made after the harvest and have been very punctual.

6. *Reserve Funds.*—The reserve fund according to the latest balance sheet represents 1·6 per cent. of the liabilities and it is invested in Government paper.

The Bank maintains enough fluid resources to cover all the obligations of Central Banks for at least 4 months in advance, these fluid resources are made up of the Cash Credit with the Allahabad Bank, easily realizable investments such as Government paper and Municipal or Port Trust debentures, and by cash in hand.

7. *Superfluous Funds.*—The demand for money in the Central Provinces owing to agricultural conditions is fairly well spread over the year and there is no marked period of inactivity. When money is in excess of needs, it has sometimes been lent to Co-operative Banks in other Provinces.

8. *Division of Profits.*—In the first year all profits were carried to the Reserye Fund and a dividend of 4 per cent. was declared in the second year of working. There is no maximum limit prescribed.

9. *Audit and Supervision.*—The Bank is supervised by its Directors, the Registrar and his staff. Audit is conducted by a professional Auditor.

B.—Central Banks

1. *The System in Force.*—There are 28 Central Banks and 2,175 societies. With very few exceptions all the societies in the Province hold shares in the Central Banks under which they work. Each Central Bank deals with a specified area which is sometimes a District and sometimes a Tahsil. The Deputy Commissioner, and in some cases the Sub-Divisional Officer also, is entitled to sit and vote at meetings of the shareholders and Directors; but these officers are not Directors. The Banks deal directly with the societies affiliated to them. The assessment of the credit of the societies is done by the

Central Banks themselves. The Directors of the Central Banks constitute, in fact, revising Boards of the credit requirements of societies, the societies themselves fixing the credit of their individual members. The local knowledge possessed by the Central Banks is obtained through their own staff and through honorary workers, and dealings with societies are based upon consideration of income, rental, earning capacity, honest conduct, etc. The supervision of societies is conducted by the Directors and their paid staff. No new society is started unless the proposals have been enquired into by a Director with knowledge of the locality from which the proposals come.

2. *Constitution and Management.*—On first starting work as teaching and financing institutions Central Banks are composed of a small number of individual members. Membership is increased gradually by the inclusion of societies. All shares are ordinary and are fully paid up. No financial assistance or guarantee is given by Government. In all Central Banks a large majority of votes is now in the hands of the affiliated societies. Amongst an illiterate population the work of account-keeping is done either by a small paid staff or by a sub-committee of Directors. For field work it is usual to divide up the area of operations into circles each under one Director.

3. *Liabilities and Assets.*—The combined Balance Sheet of the Central Banks for 1913-14 was as follows :—

Assets	Rs.	Liabilities	Rs.
Cash in hand and at Bank	78,442	Loans and deposits from non-members..	6,48,988
Investments	49,073	Loans and deposits from Provincial Bank and other societies	11,97,672
Loans due by members	8,799	Deposits of members	1,89,913
Loans due by other societies	24,62,829	Share capital	4,97,105
Interest due to banks	39,472	Interest and dividend due by banks ..	34,033
Stock in hand	6,384	Cost of management due	732
Other items	30,579	Other items	32,945
		Reserve Fund	20,290
		Total ..	26,21,678
		Profit ..	+53,900
Total ..	26,75,578	Total ..	26,75,578

4. *Composition of Working Capital.*—The share capital represents 18.9 per cent. of the liabilities. There are no debentures.

Deposits come from all sources, including public institutions, but do not include any reserve funds of societies. The bulk of the deposits are for one year at 6 per cent.

Central Banks may receive loans from the Provincial Bank but have no direct dealings with Joint Stock or Presidency Banks except in Akola where, as a matter of convenience, a small Cash Credit of Rs. 10,000 has been granted by the Bank of Bombay on the guarantee of the Provincial Bank. Loans of the Provincial Bank are at 7 per cent. and are given on the security of the pro-notes of the societies.

5. *Employment of Capital.*—Loans are given to societies only and the credit of societies is assessed by the Central Banks themselves without the intervention of the Registrar. The periods accord with the needs of the societies and the loans are given at

9 per cent. on the security of the pro-notes of the societies. Cash Credits are not given to societies.

Recoveries are usually very punctual, disputes being referred to the Registrar for decision.

6. *Reserve Funds.*—All reserve funds are permanent and indivisible; and while the individual proprietary rights of Banks and Societies in their reserve funds are carefully preserved, a system is in force which transfers all reserve funds as they accumulate to a conglomerate investment in Government paper. From this conglomerate fund the Governor of the Central Provinces Union of Co-operative Banks has the power to grant temporary loans to the Provincial Bank in case of need. As all funds, from whatever source obtained, finally reach the hands of the societies, the proportion which the total reserve funds bear to liabilities should be based upon a comparison between the liabilities of the societies and the accumulated reserve funds. Upon this basis on the 30th of June 1914, the reserve funds represented 4.6 of the total liabilities of the societies. The reserve funds of Central Banks alone, with their share capital, represent 19.6 per cent. of their liabilities.

7. *Superfluous Funds.*—Owing to the system under which these banks are connected with the Provincial Bank they have no superfluous funds.

8. *Division of Profits.*—Dividends on shares are limited by the Local Government to 12 per cent. Some of them have small Building and Contingent Funds.

9. *Audit and Supervision.*—The audit and supervision of Central Banks and societies, apart from Government Audit, is arranged for by the Central Provinces Union of Co-operative Banks which was started in March 1913, and which works under a Governor (the Registrar being at present Governor for life) assisted by an Advisory Council of four members. The Union expenses are met by a levy of Re. 1 from each member of every society and the Union employs a staff of 112 persons at a monthly cost of Rs. 2,868. Every society and Central Bank is a member of the Union.

IX.—ASSAM

Central Banks

1. *System in Force.*—In Assam there are two Central Banks, with a membership composed entirely of individuals, one of which lends only to societies and one of which lends to individuals as well. There were also, in February 1915, 4 Central Banking Unions on the Bengal Pabna model with individuals as preference shareholders and 42 affiliated societies as ordinary shareholders.

In order to assess the credit of borrowing societies these banks rely as a rule chiefly on the recommendation of the Registrar which is based on (1) the report of the Assistant Registrar or Inspector, who generally has direct acquaintance with the actual working of the society concerned, (2) rough valuation of the assets of members prepared by societies applying for loans, and verified by visiting officers, the maximum permissible being one-half of the total valuation, and (3) in 2 districts the recommendations of guaranteeing

Unions on the Burma model which at present comprise 47 societies. Propagandist work is done by the official staff and by Honorary Organizers.

2. *Constitution and Management.*—The two Central Banks are composed exclusively of individuals holding shares of Rs. 50 each, on which Rs. 25 are paid up. They have granted loans to 93 societies but do not concede any representation on the Managing Committee to them. In the Banking Unions, which are still on a very humble scale, the societies holding shares are authorised to elect half the Managing Committee. Their area of operations is the sub-division within which they are situated. The two guaranteeing Unions on the Burma model are composed exclusively of societies but have not yet had time to develop a full sense of their corporate functions and responsibilities.

3. *Assets and Liabilities.*—The combined balance sheet of the 6 Central Banks and 3 guaranteeing Unions which were in existence on March 31st, 1914, stood as follows :—

Assets	Rs.	Liabilities	Rs.
Cash in hand	23,231	Loans and deposits from non-members..	1,18,698
Investments	1,450	Loans and deposits from other societies.	483
Loans due by members	24,886	Loans from Government	280
Loans due by societies	1,23,328	Loans and deposits from members ..	19,938
Interest due	8,960	Share Capital	25,078
Other items	52	Interest and dividend due	5,767
		Cost of Management	115
		Reserve Fund	5,448
		Total ..	1,75,807
		Profit ..	+ 6,100
Total ..	1,81,907	Total ..	1,81,907

4. *Composition of Capital.*—The share capital constitutes $\frac{1}{7}$th of the total liabilities. The bulk of the deposits are fixed for 1 year and bear rates varying from 6 to $6\frac{1}{4}$ per cent. The two largest Banks are in fact urban societies lending their surplus funds to primary societies and this explains the very small extent to which they act as balancing centres for rural societies. They have no connection with Joint Stock Banks and no cash credits have been opened either by them or in their favour. One bank has taken power to issue debentures redeemable in 5 years up to four times the share capital plus reserve fund.

5. *Employment of Capital.*—One Central Bank, that at Shillong, lends the whole of its working capital (Rs. 78,816) to primary societies. Another lends more than half its capital to them. The remaining Central institutions are so small as to be at present negligible. Loans to societies are usually granted for 5 years and the rate charged is 9 per cent. The security usually taken is a bond or pro-note. Repayments are not on the whole punctual, and many of the societies to whom loans were granted have now been included in the Presidency of Bengal.

6. *Reserve Funds.*—There is no definite rule as to their investment; but some Banks with the approval of the Registrar have invested them in the purchase of Government promissory notes or in the debentures of the Shillong Bank.

7. *Superfluous Funds.*—No special arrangements have yet been made.

8. *Division of Profits.*—Dividends vary from 7 to 17½ per cent. and have not yet been limited by rule. No building funds or dividend equalization funds have been formed.

9. *Inspection and Audit.*—All audit is done by the Registrar and his staff. The guaranteeing Union maintains 2 Supervisors. The 4 Central Banks on the Pabna model are supplied with inspecting clerks at present paid by Government but shortly to be maintained at their own expense. No charge is made for audit.

X.—AJMER

Central Banks

1. *System in Force.*—There are 5 Central Banks organised more or less on one model. They belong to the 'mixed' type which aims at including both individuals and societies among the shareholders but in only 3 of them have societies yet taken shares. On June 30th, 1914, there were 495 individual members as against 280 societies. Loans are granted direct to primary societies, the credit of which is assessed on the basis (1) of the 'haisiyat' register prepared for each member, (2) of the recommendation of the Government Inspector or Registrar, and (3) the local knowledge of the Directors of the Central Bank. As a rule loans are not given in excess of ⅓rd of the estimated value of the real assets of all the members of a society. Supervision and propagandist work are carried out entirely by the Registrar and his official staff.

2. *Constitution and Management.*—All shares in Central Banks rank on one footing as ordinary shares. Their value is Rs. 25 each, fully paid up. In all cases societies form the minority of the shareholders and in only 2 Central Banks does the number of society shareholders exceed 1. Arrangements have been included in the bye laws whereby they are secured a fractional representation on the Committee. Full-time paid managers are retained as soon as the volume of business permits of it. The total cost of management is Rs. 2,940. No field staff is maintained. The areas of the 5 Central Banks have not yet been precisely defined and cases occur where one Central Bank finances societies affiliated to another.

3. *Assets and Liabilities.*—The combined balance sheet of the Central Banks stood on June 30th, 1914, as follows :—

Assets	Rs.	Liabilities	Rs.
Cash in hand	63,690	Loans and deposits from non-members	1,51,336
Investments	6,927	Loans and deposits from societies	29,658
Loans due by members	56,057	Loans and deposits from Government	31,666
Loans due by societies	6,35,927	Loans and deposits from members	4,08,013
Interest due	21,901	Share capital	1,22,275
Stock in hand	278	Interest and dividend due	11,434
Other items	..	Management due	..
		Other items	..
		Reserve	7,372
		Total	7,61,754
		Profit	+23,026
Total	7,84,780	Total	7,84,780

4. *Composition of Working Capital.*—The share capital constitutes about ⅛th of the total working capital. Deposits are received chiefly from urban centres at rates of 5 per cent. for non-members and 6 per cent. for members and affiliated societies. The primary societies are not yet sufficiently financed to meet all their needs, and therefore the Central Banks excepting the Ajmer Central Bank are not called upon to serve up to any material extent as balancing centres. No relations have been established with Joint Stock Banks, but the two* biggest Central Banks have arranged with their treasurer to draw on him when they find it necessary. The loan from Government shown in the balance sheet represents takavi distributed through the Beawar Central Bank during the last famine.

5. *Employment of Capital.*—Central Banks grant loans to their individual members at 9 per cent. usually either up to ¾th of the value of any shares or deposits that may have been received from them or secured on a mortgage of real property. The bulk of their capital is utilised in loans to societies at 10 per cent. These loans are granted with the Registrar's sanction for periods averaging 3 to 5 years. Owing to the famine in 1913-14 repayments have in several cases fallen into arrears. Last year 48 societies repaid nothing, 6 societies repaid interest only, 140 repaid interest and part of the principal, and 29 societies paid the full amount due.

6. *Reserve Fund.*—After carrying 25 per cent. of the profits to reserve and declaring a dividend up to a maximum of 12 per cent. the remainder is carried to reserve, and a large part of the reserve fund is usually invested in Government promissory notes.

7. *Superfluous Funds.*—Loans are occasionally made by one Central Bank to another. Cash balances in some cases are kept with the treasurer who allows interest at 2¼ per cent. when they exceed Rs. 5,000 in Ajmer and at 3 per cent. in Beawar, when they exceed Rs. 1,500.

8. *Division of Profits.*—The usual rate of dividend is 9 or 10 per cent; and the balance of profits, after paying a bonus to the staff and other charges, is either carried forward or treated as an addition to the amount allocated to reserve.

9. *Inspection and Audit.*—Both inspection and audit are done by the Registrar and his inspectors or clerks. The staff is at present under reorganisation.

The Central Banks of Ajmer and Beawar have got their own auditors also.

* (NOTE).—In the case of the Ajmer Central Bank Ltd., at 5¼ per cent. up to Rs. 15,000. In the case of the Beawar Central Bank, Limited, at 6 per cent. to the extent of half the amount of their share capital.

APPENDIX II

DESCRIPTIVE NOTES OF SOCIETIES

These notes are intended to give readers a concrete presentment of the organisation and working of a few actual societies. The societies chosen for description are not necessarily typical either of their class or of India generally.

I.—Crosthwaite Central Co-operative Bank, Limited, Sihora, Central Provinces

1. *Date of Registration.*—June 22nd, 1907.

2. *Constitution and Management.*—The membership is composed of 43 private individuals and 263 affiliated societies of the Raiffeisen type. The individual members have been admitted firstly because they are sympathetic local men whose influence was needed to start co-operation in this backward and poor tract, and secondly to provide the business ability needed for the management of the Bank and not yet forthcoming among the representatives of primary societies. There is a provision in the bye laws for the ultimate redemption by societies of all shares held by individuals, but this step is not yet thought expedient. The 263 affiliated primary societies include a membership of 5,207 persons largely illiterate. These societies all lie within the Sihora Tahsil, the area to which the Bank confines its operations, and it is estimated that of the total population of 2,04,869 souls at least one quarter will eventually be included in co-operative societies. The tract which is subject to famine is chiefly dependent on the wheat crop, its inhabitants are backward and primitive, and poverty and indebtedness are almost universal. Every shareholder whether an individual or a society has 1 vote only. The Board of Directors, which meets quarterly and controls the general management of the Bank, is elected annually and consists of 9 persons. Any individual holding not less than 20 shares or any Chairman of a Village Society is qualified for election. The Deputy Commissioner of the District and the Sub-Divisional Officer are entitled to attend all meetings of the Board and to vote. Under the general supervision of the Board is a Managing Committee of 5 persons appointed by the Directors from among their own number, which meets once a month, or more frequently, for the disposal of current business. As the number of societies increases, it is proposed to appoint local sub-committees to help the Managing Committee.

2. *Sources of Capital.*—The funds of the Bank are derived from the following main sources:—

	Rs.
Share capital	18,210
Deposits	1,12,929
Loans from Provincial Bank	1,82,403
Reserve Fund	7,603
Total	3,21,145

Of the share capital Rs. 3,820 have been subscribed by societies, and the remainder by individual members. All shares rank on the same footing and are of Rs. 10 each fully paid-up. Deposits, which carry interest at 6 per cent., are not received for less than 1 year.

There are 37 deposit accounts, including several opened by the Court of Wards and public bodies. The Provincial Bank grants the Crosthwaite Bank a fluctuating cash credit, which is revised from time to time but has never been less than 5 times the paid-up share capital of the Bank plus so much of the reserve funds of the Bank and its affiliated societies as is separately invested. The reserve fund is invested in Government promissory notes. Besides its own reserve fund the Bank holds societies' reserves to the extent of Rs. 24,436.

3. *Employment of Capital.*—The funds of the Bank are used exclusively in financing unlimited co-operative societies situated in the Sihora Tahsil. Objects and repaying capacity are considered in fixing the instalments of repayment. Periods vary from 1 to 5 years, and the average loan is about Rs. 60. The Central Bank lends to societies at 9 per cent. and they lend on to their members at 12 per cent. The maximum credit of each society is fixed by the Bank annually on a consideration of the normal credits fixed by the societies for their members. The security taken is the pro-note of the borrowing society.

4. *Profits and Reserve Fund.*—It is the practice of the Bank to carry more than the statutory minimum of 25 per cent. to reserve. The dividend has for some years past been declared at 6 per cent. It may not exceed 12 per cent. without the Registrar's sanction, which can only be given when the lending rate of the Bank to the societies has been reduced to 6 per cent.

5. *Staff.*—The staff is divided into two distinct departments, the first being used for executive purposes, and the second for audit. The first section is paid for out of the gross profits of the Bank itself and consists of—

	Pay Rs.
1 Manager	55 per month
1 Inspector	35 ,,
1 Accountant	35 ,,
1 Clerk	20 ,,
1 Daftri	10 ,,
3 Chaprasis	7 each per month.
1 Chowkidar	7 per month.
Total ..	183 per month.

The following staff is maintained by the societies which collect Re. 1 per head from their members as an annual contribution :—

	Monthly Pay Rs.
2 Union Auditors	30 each.
2 Peons	7½ each.
1 Society Moharrir	20
2 ,, Moharrirs	18 each.
1 ,, Moharrir	16
2 ,, Moharrirs	15 each.
2 Apprentice Moharrirs	15 each.
Total monthly expenditure ..	207

The Bank's staff are engaged in the supervision and instruction of affiliated societies and in the management of the Bank's current business. The Moharrirs are secretaries employed by the societies to maintain their accounts by groups in the absence of literate local men competent or willing to do the work. The Auditors work under the Provincial Union, and audit the accounts of Primary Societies. There is also stationed at Sihora a Government Auditor who audits the Central Bank, and makes test audits among primary societies.

6. *Special features.*—The Bank has built itself a substantial office out of its accumulated surplus funds. It has made arrangements with a Calcutta Company whereby it serves as a depot for the sale on commission of improved agricultural implements. A number of independent Unions for the production and distribution of pure seed among agriculturists exist in the tahsil. The Central Bank serves as a link between them and the Agricultural Department for the supply of selected seed.

II.—Meghaval Co-operative Credit Society, Unlimited, Bombay City

1. *Date of Registration.*—August 26th, 1913.

2. *Constitution and Management.*—The Society is organised on the Raiffeisen model with some variations. Membership is confined to sweepers, chiefly employed by the Municipality, and resident in certain adjacent streets and yards in Bombay City. Members are admitted by the Managing Committee after very detailed enquiries into their indebtedness, earning capacity, property, habits, etc., and are united by ties of caste to each other. They now number 77, of whom 7 are women. The Managing Committee which meets about once a fortnight consists of 8 members, who have made substantial deposits, and includes the Secretary of the Society. They are elected by the General Meeting, and work under a "Board of Supervision", composed of members of the Servants of India Society and other charitable persons who are not themselves members of the Meghaval Society. It forms one of a group of similar societies formed among mill-hands and other artisans under the auspices of the Debt Redemption Committee of Bombay, which employs and controls 2 Inspectors for supervising the work of the group. As the members of this group of societies are ignorant and indebted and belong chiefly to the depressed classes, they need constant supervision and training.

3. *Sources of Capital.*—The capital of the Society is derived from the following main sources:—

	Rs.
Members' debenture money	751
Members' deposits	693
Non-members' deposits	15,205
Loans from Government	500
Loans from other societies	1,940
Total ..	19,089

Every member is bound to take up two debentures of Rs. 10 each, bearing interest at 6¼ per cent. and redeemable after 10 years. He may either pay the amount in full, or in order to facilitate thrift, contribute a monthly instalment of 8 annas. Those who have any

savings of their own may deposit them for periods extending from 1 to 3 years at rates varying from 6 to 9 per cent. The deposits obtained from non-members at similar rates have been chiefly attracted by confidence in the close supervision exercised over the society by Mr. G. K. Devdhar of the Servants of India Society and the Board of Supervisors generally.

4. *Employment of Capital.*—The primary object of the Society is to free its members from their old debts to their caste fellows and to Marwaris, Banias and Pathans, which generally bear interest at from 75 to 150 per cent. The maximum amount advanced to a single member is Rs. 300 and no case is taken up unless the income of the member is such as to give grounds for presuming that the whole debt will be paid off in three years by not more than 36 monthly instalments. Loans for the discharge of social and religious obligations are given in cases of absolute necessity provided that the total amount advanced in a year does not exceed Rs. 100. As the members of the Society have little real property to offer as security, the greatest importance is attached to sureties. Three are usually required for every loan and one of these must usually be a near relation and the earner of a regular salary. Interest on loans is charged at the rate of 18¾ per cent.

5. *Profits and Reserve Fund.*—The whole net profits and all entrance fees are carried to reserve. Before the net profit is declared 7½ per cent. of it is set aside for the encouragement of education.

6. *Staff.*—The Members of the Managing Committee, including the Chairman and Secretary, work free of charge, but with the increase in clerical work it is proposed shortly to give the Secretary some definite remuneration. In addition to the Supervising Committee whose services are gratuitous, the work of the Society falls under the supervision of one of the two paid Inspectors maintained by the Debt Redemption Committee of Bombay.

7. *Special Features.*—The Society forms one of a group which are under the special care of the Debt Redemption Committee. A scheme is about to be introduced under which every member will be required to subscribe to an Endowment Insurance Policy for Rs. 250 maturing in 20 years, and to pay the premia to the Society by monthly instalments. The society would pay the premia to the Insurance Company by annual instalments and would use the interest accumulated on the money pending with it to provide free medical aid to members. The scheme is intended to encourage thrift and to provide members with policies which may be accepted as security for loans. A small co-operative store, for the retail of cereals and other necessaries, has been started in connection with the Society for the use of members.

Lantern lectures are given free to the members on popular subjects, and special facilities in the way of night schools have been arranged for them and their children by the Servants of India Society.

III.—Tantabin Union of Co-operative Credit Societies, Kanbalu Township, Shwebo District, Burma

1. *Date of Registration.*—May 22nd, 1910.

2. *Constitution and Management.*—The Union is composed of 38 rural societies lying within a radius of about 10 miles from Tantabin Railway Station. All carefully managed societies within the area are eligible for membership. The ultimate control of the Union rests with the General Meeting, consisting of 2 representatives of each affiliated society

which met 5 times during 1913-14. Its business is to consider the inspection notes of affiliated societies and issue any order that may be necessary, to discuss their general condition, to regulate their credit, and to elect a Chairman and Vice-Chairman. The Chairman and Vice-Chairman constitute the Union Committee, which deals with all current business, supervises the work of the Inspectors, requires 2 of its own members to inspect every society themselves, and generally sees that the affiliated societies are carrying out the Union Regulations. The Union area is divided into local groups and in each a small sub-committee of 3 or 4 members under a Vice-Chairman has been constituted to assist the Committee in its work. The objects of the Union are to train and inspect its affiliated societies, and to have the borrowings of each of them from non-members guaranteed by the remaining societies with which responsibility for the assessment of credit lies. The extent of the liability of each constituent society is limited to the maximum amount of loans from non-members held by it during the immediately preceding year.

3. *Sources of Capital.*—The Union itself is not a financing body, but levies a rate of 12 annas per cent. on the working capital of affiliated societies to pay its staff and to meet contingencies. The Union has worked so satisfactorily that it has been granted a cash credit of Rs. 75,000 by the Upper Burma Central Co-operative Bank, and within this limit all applications for loans by affiliated societies forwarded and approved by the Union are sanctioned immediately by the Central Bank without reference to the Registrar. The Union itself holds no funds apart from those realised by the Union rate and takes no deposits from outsiders.

4. *Employment of Capital.*—The societies constituting the Union are all agricultural credit societies either on the pure Raiffeisen model or on the model which requires members to take shares of Rs. 100 each, payable in 10 yearly instalments. The total share capital of the borrowing societies was on January 30th, 1914, Rs. 9,490. The maximum credit of each society is fixed by the General Meeting, but each particular application by a society for a loan within this maximum is scrutinized and revised by the Union Committee, before being transmitted to the Central Bank. Loans are utilized by the members of primary societies for the purposes defined in their bye laws. They are repayable either at harvest or within periods not exceeding 4 years according to rigid rules embodied in the bye laws. Repayments have in most cases been very punctual and in the few cases of delay the Union dealt severely with the peccant societies. Recoveries, after deducting sums required for small urgent loans, are remitted through the Union to the Central Bank. Societies obtain funds from the Central Bank at 9 per cent. and lend them to their members at 15 per cent.

5. *Profits and Reserve Fund.*—The Union itself makes no profits and holds no reserves. The total reserve fund of the affiliated societies amounted in 1914 to Rs. 13,193. It is a rule that they should deposit ¼ of their profits with the Central Bank in a Savings Bank account, the remainder being utilised in the business of the societies.

6. *Staff.*—Inspections of affiliated societies are carried out primarily by the Union Committee men who receive a fee of Rs. 2 per society inspected. The Union contributes also to the salary of an Inspector on a consolidated pay and travelling allowance of Rs. 50 per month, who inspects and trains the societies constituting 6 Unions in the neighbourhood. A Secretary is also maintained to write the accounts and to carry out any orders that the Committee may give him.

7. *Special features.*—The General Meeting maintains a very close and active supervision over the details of the management of all constituent societies. If it finds that the debts of the members of any society have increased or that the number of cattle or the amount of land owned by them is diminishing, it requires an explanation. In cases where the members of a society persistently fail to master the main principles of co-operation, it takes special measures to instruct them or recalls the loan advanced to that society. It assists societies to arrange for the sale of their rice in Mandalay. All defaults or applications for extensions are thoroughly discussed in the full meeting.

IV.—Lucknow Baraf-Khana Co-operative Dairy Society, Unlimited, United Provinces

1. *Date of Registration.*—The Husainganj Ghosi Co-operative Credit Society registered on September 14th, 1911 was reconstituted and registered under the above name as a dairy society on March 17th, 1914. The dairy actually started operations in December 1913.

2. *Constitution and Management.*—The number of members is 40. As a qualification for membership applicants must be owners of milch cattle and carry on the business of the sale of milk and dairy produce in Lucknow. The Managing Committee consists of 7 members, of whom four are elected by the members and three are nominated by the District Co-operative Bank, Lucknow, which finances the dairy. Among these latter is the Deputy Commissioner of Lucknow who is the *ex officio* Chairman. Committee Meetings are held not less frequently than once a month. Up to January 31st, 1915, 23 meetings had taken place. A sub-committee of 3 members, presided over by Mr. M. Azhar Ali, Pleader, has been appointed to carry on the ordinary administrative control of the dairy and had held 49 meetings up to January 31st, 1915. Every member of the society is required to take up at least one share and as many more, not exceeding 50, as the Committee may decide after considering his general position. Shares are of Rs. 20 each, payable by 20 equal half-yearly instalments.

3. *Sources of capital.*—The following are the main items which constitute the working capital:—

	Rs.
Paid up share capital	1,494
Loan from District Bank	14,140
Loan from Lucknow Municipality	6,000
	21,634

As regards share capital, 441 shares have been subscribed and are being paid up by half-yearly instalments. The loan from the district bank is being repaid by monthly instalments as recoveries come in from members. The society was lent Rs. 6,000 by the Lucknow Municipality at 5 per cent. repayable in 3 years for the construction of suitable buildings.

4. *Employment of Capital.*—Cash loans are made to members at the rate of 15 per cent., chiefly for the purchase of milch cattle and fodder. Small loans are repayable by monthly instalments, and others according to their object and the condition of the borrower.

The borrower is required to furnish two sureties and to sign a pro-note. Loans are ordinarily repaid punctually, but owing to the high price of food-stuffs prevailing last year some have become overdue.

The members buy and look after their own cattle. They also buy their own fodder which is inspected by the Manager. In its corporate capacity the society has leased some pasture land in Lucknow itself for the use of the cattle kept in the dairy premises, and also last hot weather leased some pasture land in the Bahraich district to which dry cattle were sent. The Agricultural Department in conjunction with the Municipality propose shortly to start a sullage farm in the neighbourhood, and have promised to sell fodder to the dairy at reasonable rates as soon as it becomes available.

The society in its corporate capacity has also secured a convenient site for the dairy near the civil station and cantonments, and has invested about Rs. 8,000 of its working capital in erecting (1) a dairy fitted with modern dairy appliances, together with an office room, (2) two sheds for the housing of the cattle, which number 214 and include cows, buffaloes, and calves, and (3) two rows of dwelling houses in which 32 of the members reside including both Mussulmans and Hindus. The cost of each house is debited as a loan to the member occupying it, and when the loan is recovered, the house will become the member's private property. It is proposed as funds become available to build (1) additional sheds for cattle, (2) quarters for the Manager, and (3) a compound wall.

5. *Profits and Reserve Fund.*—All animals are milked under the supervision of the Manager. The milk is received direct in the dairy room at the rate of 11 seers per rupee. From there it is sold direct to the public at 8 seers per rupee as whole-milk, or at 12 annas a pound as butter or cream, or at 14 annas a pound as ghi. There are about 100 regular customers, both European and Indian. The rate of sale approximates to the market rate as there is little demand for milk at a higher rate. The total receipts on account of sales between December 1913 and January 1915 amounted to Rs. 14,468. The milk is distributed by hand by some of the members who are remunerated at the rate of 6 annas per house per month.

The society is one of unlimited liability. No dividends are to be paid on the shares of members for 10 years and after that period a dividend limited to 10 per cent. will be admissible on fully paid-up shares. At present all profits are carried to reserve fund, which on June 30th, 1914, amounted to Rs. 885. The profits for the following 7 months were Rs. 848. The reserve fund is used as part of the working capital of the society.

6. *Staff.*—(1) A manager on Rs. 35 who has visited some military dairies and been trained in co-operative work. He lives in the compound and supervises the whole institution, (2) A whole-time Accountant on Rs. 10 per month, (3) a butter maker on Rs. 9 per month, (4) 2 salesmen on Rs. 6 per month, (5) 1 bhisti on Rs. 3 per month, (6) one sweeper on Rs. 2-8-0 per month, (7) 1 chowkidar on Rs. 6 per month, and (8) about half a dozen members distributing milk at the rate mentioned above. The total cost of the staff is about Rs. 110 per month.

6. *Special features.*—The dairy, being at the headquarters of the Province of Oudh is fortunate in the amount of supervision which it receives. It is regularly inspected by the Honorary Manager of the District Bank, the Municipal Health Officer, the Sanitary Com-

missioner with Government, the Superintendent of the Civil Veterinary Department, and the Officers and Staff of the Agricultural Department as well as by the Registrar. The Agricultural Department have put down a small silo in the compound to demonstrate the system of ensilage, and have presented a bull buffalo to the dairy. The Municipal Board has also given a bull to the institution. These two bulls serve only dairy cattle, and a record of their service is regularly maintained.

V.—THE SHANKAR PATTI THAKAR, AGRICULTURAL CO-OPERATIVE CREDIT SOCIETY, UNLIMITED, PUNJAB

1. *Date of Registration.*—January 4th, 1912. The Society originated in the partition of an older society existing in the village since 1906, and confines its area to a part (or 'patti') of the Jat Sikh village of Shankar in the District of Jullundur.

2. *Constitution and Management.*—The Society consists of 199 members, undertaking joint and unlimited liability, of whom 62 are shareholders, and 137, a relic of the older society, have paid only an entrance fee of annas 8 per head. The Managing Committee, which meets about twice a week is elected annually, and consists of the President, Secretary, Treasurer and 3 members. The value of the shares are payable by two instalments per year (one at each harvest) spread over 10 years. At the end of 10 years three quarters of the accumulated profits are assignable as bonus to the shareholders, and the shares may be withdrawn. There is no Supervising Committee or Sub-Committee; but the work of recovery is distributed by the Committee members amongst themselves.

3. *Sources of Capital.*—The bulk of the society's working capital is derived from the following sources:—

	Rs.
Shares	6,230
Members' deposits	23,096
Non-members' deposits	11,195
Accumulated profits (including reserve)	1,074
Total ..	41,595

Deposits are usually fixed for 1 year. The rate paid on them for this period is 6 per cent. both to members and non-members. Deposits are received from emigrants in Australia and America and as much as Rs. 7,000 has been received from one village money-lender.

4. *Employment of Capital.*—Of the working capital Rs. 24,221 have been lent out to members at $9\frac{3}{8}$ per cent. The chief objects of loans are purchase of cattle, fodder, and seed; household and trade expenses; payment of old debts and redemption of mortgaged land; and costs of emigration (to Australia, Africa and America). The maximum period of a loan is 3 years. Usually the bond of the borrower is regarded as sufficient security, but in cases where the borrower is not a landowner one or more sureties are taken. In only one instance has land been mortgaged to a society. Superfluous funds amounting to Rs. 16,100 have been deposited with the neighbouring Chuheki Union at 7 per cent. fixed for one year. As the society holds more money than it can use in loans to its members, it does not usually

press for the repayment of the principal of loans so long as it receives interest. Repayments during 1913-14 amounted to Rs. 13,000.

5. *Profits and Reserve Fund.*—There is no separately invested reserve fund; but the whole of the profits are invested in the society's own business. At the end of 10 years one-quarter of this amount will be allotted to reserve and the remainder distributed in the form of bonus shares to shareholders.

6. *Staff.*—All the officers of the society are unpaid. The President has been appointed by the Registrar to be an Honorary Sub-Inspector and supervises neighbouring societies within a small area.

7. *Special Features.*—The shareholders are very much alive to the value of their interest in the accumulated profits and are unwilling to diminish it by admitting new shareholders. Through the agency of the society old debts amounting to Rs. 10,123 have been paid off and mortgages to the amount of Rs. 3,583 have been redeemed. No members now resort to money-lenders and it is reported that the rate charged by money-lenders to non-members has been substantially reduced by the presence of this society. During the banking crisis of 1913-14 deposits to the amount of Rs. 19,277 were withdrawn but Rs. 19,599 were received as fresh deposits. Since the outbreak of the present war members' deposits have risen from Rs. 20,160 to Rs. 23,090 but non-members' deposits have fallen from Rs. 15,311 to Rs. 11,195.

VI.—Triplicane Urban Co-operative Society, Limited, Madras City

1. *Date of Registration.*—September 20th, 1905.

2. *Constitution and Management.*—Membership is limited to residents in Madras and in the suburbs of Adyar, Saidapet and Sembian. The members number 2,713. The work of the society falls into two main divisions. Firstly it carries on ordinary credit business and secondly, it maintains a store with 14 branches for the purchase wholesale and distribution retail, of about 230 articles in common use amongst its members. The management is vested in a Board of Directors elected annually comprising a President, a Legal Adviser and five ordinary members. They are assisted in their work by certain committees; (1) an Advisory Board with power to attend Directors' meetings and to make suggestions but not to vote. Each branch elects one representative on this Board; (2) an Electoral Board which consists of the Advisory Board with the addition of a second representative from each branch. They have power to elect the Directors and to fill *ad interim* vacancies but may not elect one of their own body; (3) Local Punchayats, consisting of 5 persons, elected by the members of each of the 14 branches and vested with general power to manage the branch under the control of the Board of Directors. Their chief functions are to investigate complaints and bring needs to notice, to report on applications for loans and to supervise the work of the branch store. In addition to these the Directors themselves have power to appoint sub-committees, of which there are 3 in existence: (1) the testing committee whose business it is to test and pass all articles stocked for sale, (2) the Educational Committee, who are expected to take measures to spread a knowledge of co-operation among members and others, and (3) the accounts committee, which super-

vises the accounts and sees that the account forms in use are modified or enlarged in consonance with the growing business of the society.

3. *Sources of Capital.*—The main sources of capital are—

	Rs.
Share Capital	37,303
Deposit by members	40,429
Miscellaneous items	37,750
Reserve Fund	23,821

Every member in addition to subscribing and paying up at least one share of Rs. 5 is required to pay an entrance fee of annas 4. Deposits are classified as fixed, recurring, current and chit funds. Fixed and recurring deposits carry interest at 6¼ per cent. and current deposits at 3⅛ per cent. The society has never had need to accept deposits from non-members. A chit fund is a peculiarity of Madras and its working is described by the Registrar as follows :—

" A definite number of members unite to subscribe periodically a certain sum each. The following is a concrete example.—There are 16 persons (all being members of one chit society) who contribute for 16 months Rs. 25 per head per month. Each month Rs. 400 are thus subscribed, and the question is how to dispose of this amount each time. There are three possible methods of doing so :—

(1) The " head and tail " or lottery system in which lots are cast every month amongst members who have not already drawn a lot and the amount is paid in full to the person whose name is drawn. This is open to the objection that the member who draws a lot earlier reaps an undue advantage over his less lucky brother who draws a lot in one of the later months.

(2) The " discount " or " discount lottery " system :—This system aims at equalising benefits, so that the winner of a lot gets the amount less a deduction for interest at a fixed rate. These deductions are divided at the end among the several members. But in this method the pool may go to a person who may not want it just then and who would have to find another investment for the money.

(3) The " auction chit " system.—Here no lots are cast, but the amount subscribed is auctioned to the bidder of the highest discount. The successful bidder receives the amount less the discount bid. Here too there is a disadvantage because when competition is keen, very high discounts are bid so that the benevolent principle of co-operation and mutual help underlying these institutions is replaced by extortionate bargain driving. This defect is remedied by a provision in the bye laws to the effect that the discount shall not exceed 9 per cent. and shall not be less than 4 per cent. Thus in the chit fund cited as an example at the fourth monthly meeting after which 12 months will yet have to run the discount should lie between 4 and 9 per cent. on Rs. 400, that is, between Rs. 16 and Rs. 36, so that the one who bids the highest discount, will have not less than Rs. 364. This provision secures the maximum advantage to be derived from the chit fund system without at the same time allowing any scope for the several possible defects of method noticed above. Members of a society are no doubt allowed under the rules to close either the discount lottery or the auction chit system but the latter alone has in actual practice been adopted ".

The society obtains its profit by deducting 1 anna per rupee of the discount obtained and distributing the remainder to the members partaking in the fund.

4. *Employment of Capital.*—Rs. 30,310 are on loan to members as ordinary cash advances usually repayable in one year. Mortgages of real property, Government Promissory Notes and insurance policies are accepted as securities in addition to personal sureties. The rates charged are $6\frac{1}{4}$ per cent. or $7\frac{13}{16}$ per cent. according to the nature of the security offered. The remainder of the working capital is utilized in the business of the society's shops. During the year 1913-14 the sales amounted to Rs. 6,40,117. All sales are for cash.

5. *Profits and Reserve Fund.*—The entire profits of the credit branch are taken to reserve. Of the profits of the distributive branch, one-fourth is carried to reserve. A dividend at $3\frac{3}{4}$ per cent. per annum is then paid on shares. Of the remainder two-thirds are distributed as a bonus to purchasers, working out last year at a rate of 3 pies in the rupee. This remaining one-third is credited to a common good fund which is utilised for the upkeep of reading rooms attached to the society's office and its branches. The whole of the reserve fund is invested as a fixed deposit at 6 per cent. with the Madras Central Urban Bank.

6. *Staff.*—The Staff consists of the following:—

A Secretary on Rs. 85—$7\frac{1}{2}$—100—10—120.
One Auditor, Rs. 55.
Office Manager, Rs. 50.
8 Clerks, Rs. 20—2—30.
40 Clerks, Rs. 10—1—20.
Chokras and salesmen, Rs. $2\frac{1}{2}$—$\frac{1}{2}$—10.

The auditor is a man trained in book-keeping and the theory of banking and commerce. He is assisted and supervised by two honorary auditors elected by the general body of members.

7. *Special features.*—The Madras Bulletin of Co-operation which was first published at the cost of Government by the Registrar in 1909 as an official organ of Co-operative Intelligence was transferred to the society in 1913. It is now edited by the Educational Committee. Official circulars and notifications are published in it, reports of Conferences and other Co-operative activities are recorded, and miscellaneous contributions are received from Co-operators throughout the Presidency.

VII.—Nandawgyun Co-operative Cattle Insurance Society, Limited, Upper Burma

1. *Date of Registration.*—December 28th, 1911.

2. *Constitution and Management.*—Membership of the society is confined to residents in Nandawgyun village, who own plough cattle and are also members of the village co-operative credit society. The members number 27 owning 46 insured cattle. No animal is accepted for insurance other than bullocks and male and female buffaloes between the ages of 4 and 12. The society is managed by a Committee of 5 members, which met twice during 1913-14 and which is elected by the general meeting. The Committee men retire by rotation,

two every two years. There is also a Committee of 3 experts elected by the general meeting to examine all cattle presented for insurance and to check and fix finally their valuation. Valuations are revised every six months.

3. *Sources of Capital.*—The society is not financially connected in any way with the local credit society, except in so far as it deposits its superfluous funds in it. Its capital is derived from the premia of members which are levied at the rate of 5 per cent. on the value of the animal insured and are payable by two six-monthly instalments. The premia received during 1913-14 amounted to Rs. 64-13-0 and an indemnity of Rs. 21-10-9 was paid out. The accumulated funds of the society now amount to Rs. 63-5-0.

4. *Employment of Capital.*—In the event of the death of an insured animal, an indemnity of 2-3rds of the value of the animal insured, *less* the value of the hide and carcass, becomes payable, except in cases where a third person is legally liable for the death or where it is caused by a contagious disease in dealing with which the owner has failed to comply with the veterinary rules. The value of plough cattle is usually from Rs. 40 to Rs. 50. Up to date four animals have died and the indemnities been duly paid. In the event of the funds received as premia during the year proving insufficient to meet all claims, half of the reserve fund may be drawn upon in any one year with the Registrar's sanction to meet the deficiency. If the funds are still insufficient, the indemnities for all animals that have died during the year must be proportionately reduced.

5. *Profits and Reserve.*—The funds are classified as (*a*) the general fund, consisting of all premia paid during the year and (*b*) the reserve fund, consisting of all fines, entrance fees, donations, excess of receipts over expenditure in previous years and interest accruing on the invested reserve.

6. *Staff.*—The Chairman and Secretary are honorary. The society is supervised by the Inspector of the Nandawgyun Union as well as by the Government staff.

7. *Special features.*—Nil.

APPENDIX III

CATALOGUE OF OPINIONS AND RECOMMENDATIONS

No.		Para.
	NON-CREDIT SOCIETIES	
1.	Non-credit societies are important and deserve encouragement, provided they spring up spontaneously and there is a sufficient competent supervising and guiding staff available	8
2.	It is desirable to reorganise village industries co-operatively but a systematic enquiry into their present circumstances should precede any action	10
3.	Urban non-credit societies designed to carry on ordinary trading should be registered with caution and only when they clearly fall within the terms of the explanation contained in the preamble of the Act	10
4.	Advantages to be expected from creation of non-credit societies for sale and production	11
5.	Adoption of Cattle Insurance recommended: the Burma system most likely to be preferred	12
6.	Undesirability of waiting for actuarial data or for general application of prophylactic measures in cattle diseases	12
7.	No primary or central credit societies should be permitted to undertake any liability on behalf of cattle insurance societies	12
8.	A central cattle reinsurance society is necessary, and Government backing to such an institution is unobjectionable	12
9.	Hail Insurance societies advocated	12
10.	Agricultural non-credit societies should ordinarily be annexes to credit societies and when a society undertakes the supply of seed or implements, it should ordinarily act purely as an agent and should not itself become owner of the goods	13
11.	There is no objection to sound non-credit societies being financed by Central Banks	13
12.	The Agricultural Department should assist societies for distributing improved seed and implements provided experimenting is avoided. Control of such societies to rest for some time with Registrar and not with Director of Agriculture	13
13.	Dealings with non-members should, as far as practicable, be avoided ..	14

No. PARA.

CREDIT SOCIETIES

A.—Non-Agricultural

14. The policy of spreading co-operation primarily among agriculturists may be relaxed and it may now be recognised that the needs of the industrial and non-agricultural population call in their own degree for equal attention 15

15. Liability in non-agricultural societies should only be limited when the clientele are well to do and close mutual knowledge is not easily obtainable 16

16. Urban societies useful as a training ground for spreading banking principles but should be practically self-supporting 16

17. Employees' societies are difficult to manage and require the support of the head of the office and facilities for recovery by deductions from pay sheets. The insurance of members in the Post Office Insurance Fund is desirable 18

18. Societies among the poorer urban classes need special encouragement. Government help in the maintenance of an efficient clerical staff is justifiable 19

B.—Agricultural

19. Well considered schemes for establishment of mortgage associations for landed gentry likely to be of great value 20

20. Uniformity of nomenclature is desirable. Institutions dealing with individuals should be known as "primary societies" or "societies." All federal institutions constituted of these "primary societies," if they do banking business, should be known as "Central Banks," and if they provide supervision or guarantee only, should be termed "Unions." A bank dealing with Central Banks or Societies throughout a whole province should be called a "Provincial Bank" 21

I.—Primary Societies

(1) *Constitution and Management*

21. The Registrar is responsible for seeing that societies are organised on sound lines 24

22. The area of a society should be restricted so that members may be mutually acquainted and exercise mutual control. The general rule should be one society to one village 25

23. Membership should start small, increase gradually and not exceed a maximum varying between 50 and 100 26

No.		Para.
24.	Exclusiveness deprecated but no attempt should be made to force poor members on a society	27
25.	A deliberate mixture of occupations within a primary society not recommended, but societies affiliated to a Central Bank may well represent various occupations	28
26.	The Registrar before registration requires information about the character of the applicants and their knowledge of co-operation, their debts and property, the amount of working capital available locally and the means of supervising the society	29
27.	Careful teaching of co-operative principles before and after registration is essential. It is advisable to lay down the main points on which emphasis is to be placed by teachers	30
28.	The Honorary Organiser who forms a society should where possible supervise and train it	31
29.	The teaching of co-operation in primary schools is not advocated	32
30.	The Secretary should be a local man and confined to purely clerical work. Village accountants usually unsuitable for the post, but schoolmasters are unobjectionable. Group secretaries are deprecated	33
31.	It is incumbent on Registrar and his staff to see that the Committee is not beyond the control of the General Meeting, and does not leave its functions to one or two of its members	34
32.	The appointment of supervisory committee is not at present recommended..	35
33.	Where individual creditors refuse to disclose claims, societies should be empowered to ascertain the debts of a member by serving a notice on such a creditor requiring him to state his claim subject to discharge of debt on failure to comply and prosecution for wilful falsehood. The system should be tried first in Burma and might be made applicable to all agriculturists whether members of societies or not	36
34.	The payment of the old debts of members is advisable; but should usually be undertaken by degrees and not necessarily on admission	37
35.	Societies should require members to inform the Committee whenever they take loans from outside	38
36.	The multiplication of societies should radiate by imitation from existing centres of co-operation, except when a start is being made in new districts. A policy of caution and concentration should be followed. Comparisons between rate of progress in the various provinces deprecated	39
37.	The movement should not be encouraged in provinces or parts of provinces where supervision is not likely to be adequate	39

No.		Para.
	Composition of Capital	
38.	The object of every society being to accumulate a permanent capital of its own, the best method of attaining it is to arrange for a wide margin between the borrowing and lending rates. As an alternative though a *pis aller* every member may be compelled to subscribe to shares, payable by instalments or in a lump sum	43
39.	In cases where shares are repayable to their holders after a stated period, there are certain difficulties which should be seen to as opportunity offers	44
40.	A maximum limit should be fixed on dividends	45
41.	It is permissible to obtain share capital by deductions from loans granted to members	46
42.	Agricultural credit societies whether with or without shares should ordinarily be based on unlimited liability	47
43.	Primary societies should aim at getting as much local deposits as they can, should not try to attract them from areas served by other societies. Deposits should be strictly local and surplus amounts sent to a Central Bank	48
44.	To encourage deposits by members it is justifiable to offer slightly higher rates on them than on those of non-members	49
45.	As a means of inculcating thrift small instalment shares preferable to compulsory deposits	49
46.	Current accounts and deposits at call should be prohibited. The term of deposit should not ordinarily be less than one year. To secure longer terms higher rates of interest should be offered	50
47.	Short-term deposits for not less than one month may be permitted to meet a demand for short loans repayable at harvest	51
48.	Short-term deposits if made in the form of savings deposits, stimulate thrift and ought to be encouraged	51
49.	Competition between co-operative and post office savings banks discussed and reasons given why this should be welcomed	51
50.	A limit should be fixed to the borrowing power of a society by the General Meeting once a year in the manner described in paragraphs 141-2 and this should be subject to Registrar's control	52
51.	Deposits which the society is unable to use in loans to members should be transferred to Central Banks which should offer specially favourable rates for such money. Societies should not be prohibited from accepting deposits within their maximum borrowing power although in excess of	

No. PARA.

the limit fixed for the local borrowings of individual members. They must be responsible to the depositors and cannot transfer their liability to Central Banks which however in event of their inability to accept such deposits should notify primaries. All deposits above their maximum borrowing power should be refused by societies 52

52. Care should be taken to repay deposits punctually and to instil confidence in depositors by allowing them to see accounts and attend meetings. A general condition allowing compulsory renewal in time of stress not advocated 54

53. Repayments of long term deposits before maturity should be made only rarely and when a substantial reduction of interest is accepted 55

54. Loans from one society to another should always be made through the medium of a Central Bank or Union 56

55. Rapidly increasing reserve funds not a danger 57

Employment of Capital

56. Loans to meet seasonal agricultural demands should be distributed at one time. Special urgent demands may be dealt with by a quorum of the Committee or the Chairman himself subject to close restrictions .. 58

57. For the custody of cash balance special arrangements may be made at Government Treasuries or Police Stations, or the rules of the Post Office Savings Bank may be relaxed in certain points 58

58. The maximum borrowing power of a society, *i.e.*, the limit up to which the society will pledge its credit should be fixed by the General Meeting.. 59

59. The maximum normal credit for each member should also be fixed at the General Meeting. Loans in excess of this limit should not be granted by the Committee without reference to the General Meeting 59

60. As a security for loans the pro-note is recommended in preference to the bond provided that the exact terms of loans to members are clearly recorded in the bye laws or minutes 60

61. Every member should be furnished with a pass book (a summary of the main points of co-operation being perhaps printed within the cover) or there should be a public statement showing each member's loan .. 60

62. In societies with shares every member should be forced to take a share .. 61

63. If loans are given for non-productive purposes, precautions should be taken to see that the expenditure is inevitable and not excessive 62

64. Loans to enable agriculturists to hold over grain for a fair market should be for a period not exceeding three months 62

No.		Para.
65.	For financing expensive improvements in land, loans under the Land Improvement Loans Act will have to be relied on rather than ordinary co-operative funds	62
66.	Strict enquiry should be made at inspection that loans have been properly used and cases of misuse should affect adversely the credit allowed to a society by its financing agency	63
67.	The period of loans should be fixed at the time when they are sanctioned. Loans for non-productive purposes should be for periods not exceeding 2 years. For productive loans the main factor should be the object of the loan and standards based on this should be prescribed; but the amount of the loan and the circumstances and repaying power of the debtor may also be taken into account	64
68.	At the beginning a society should strive primarily to meet the current needs of its members and should not lock up a large proportion of its capital in long-term loans	64
69.	Repayments should always be made out of the proceeds of the use of loans and by annual equal instalments where the period of the loan exceeds 1 year	64
70.	All loans should be backed by sureties, who should as a rule be members. Fewer sureties may be required for small loans than for larger ones. Responsibility of sureties should be rigorously and promptly enforced..	65
71.	Tangible property may be hypothecated to a society as collateral security, but should be taken in addition to and not instead of personal sureties..	66
72.	Societies should not accept their own shares as security for loans	67
73.	Mortgages of land should be taken sparingly, either as a collateral security or to prevent alienation of the land elsewhere. Mortgages should as a rule be without possession	68
74.	There would be no objection if societies with the concurrence of landlords were permitted to hold mortgages on land in areas where they would ordinarily be unable to obtain them owing to the state of the tenancy law	69
75.	Fixity of tenure necessary to existence of co-operative investments.. ..	69
76.	The lien of a society under section 19 of the Act should be converted into a charge; otherwise there is no bar to outside attachment unless a decree has been passed in favour of a society	70
77.	Any action which would facilitate cheap and easy mortgage in areas where mortgage is permissible is advocated	71

No.		Para.
78.	Interest rates charged on loans should be included in the bye laws and made unalterable without the Registrar's sanction. As long as they are below those of the outside markets, they should not be pitched so low as to retard the growth of a reserve fund	72
79.	When societies are firmly established cash credits should be sanctioned to individual members	73
80.	Punctuality in repayment vital. The system of accounts should show clearly what loans have been extended and which have become overdue. Extensions for good reasons justifiable. System for showing overdues outlined	74
81.	Grain payments to be confined within narrowest limits	75
82.	The levy of penal interest on overdue amounts unobjectionable—but not effective and tends to supplant personal pressure on sureties which should be first step taken	76
83.	Fictitious adjustments of loans (*i.e.*, recovered and re-advanced at once) should be brought to notice during an inspection, and should be checked by insistence on a proper relation between money recovered from members and money remitted to a Central Bank	77
84.	Rules should be framed by local Governments to enable disputes between societies and their members to be referred to arbitration	78
85.	The decision of the Registrar or awards of arbitrators should be executed in the same manner as a decree of a Civil Court, and not by any special process. A résumé of the provisions of the law dealing with the recovery of agricultural debts might be supplied to all courts and societies; and courts instructed in the absence of special reasons not to use their discretionary power to reduce a society's ordinary lending rate ..	79
86.	Recoveries should be made by a society and its staff, and not by the help of any outside supervising agency or the staff of the Registrar or Collector..	80
87.	The meanings to be applied to term "reserve fund" and "fluid resource" explained	82
88.	Primary societies should be allowed to use their Reserve Funds in their own business, provided their ability to repay deposits on due date is secured	83
89.	To ensure the reserve fund growing as quickly as possible the margin of interest should be kept as high as possible until a society becomes independent of outside assistance	84
90.	No restrictions need be placed on the charitable objects to which a portion of the profits is devoted, other than those contained in section 34 of the Act	85

No. | | Para.

91. Societies should not be used to promote sanitation, education and village improvement except when the society represents the whole village and undertakes such work spontaneously 85

92. A Registrar should dissolve a society as soon as he is satisfied that there is no hope of eventual solvency or progress 85

93. When the Co-operative Societies Act is next revised, provision should be made for the summary recovery of members' debts by a liquidator on the cancellation of a society's registration 87

Audit and Supervision

94. Constant audit and supervision is essential to success and should be provided for 88

95. The term auditor and its derivatives should be confined to the staff chiefly engaged in audit, and the term supervisor and its derivatives to the staff chiefly engaged in supervision. The terms 'inspection' and 'enquiry' should be confined to the processes mentioned in sections 35 and 36 of the Act 89

96. Two controlling officers should be employed in each province and there should be a Registrar or Joint Registrar for every 1,000 or fraction of 1,000 societies registered. They should be well versed in co-operative literature relating to all countries, and should, if possible, have gained some personal experience of the subject in Europe. Necessary assistance should be given, but Assistant Collectors seconded for training not to be looked on as assistants 90

97. The clerical staff of the Registrar and his Assistants should be adequate .. 90

98. The audit should go beyond the bare requirements of the Act and include an enquiry into all the circumstances which determine the general position of a society 91

99. The audit staff should be responsible to the Registrar and mainly controlled by him. Its primary object should be to assure Government that the societies, started through its agency, are developing on sound lines 92

100. A staff should be maintained by Government for undertaking super-audit *i.e.*, a separate and complete audit made at periods of 2 years or more. A Government Auditor should audit about 100 societies per year, and should not be given educational or propagandist work to do. Recess and variety of work, however, are essential to prevent staleness .. 93

101. A staff should be maintained by the societies themselves for making the original audit. It should be such as the Registrar can rely on and be controlled by him in consultation with the contributing societies. A

No.		Para.
	single cadre should be formed for a whole province and maintained by a levy on the societies, or by an enhancement of the interest charged to societies	94
102.	Educational qualifications are not at present considered necessary for auditing and supervising staff	95
103.	A regular form of audit report should be prescribed; but details should not be too minute. A copy in vernacular should be supplied to every society, and the original should be seen both by the financing agency of the Society and the Registrar	96
104.	Government would be justified in contributing to the cost of the audit of societies with unlimited liability among low castes. In ordinary urban societies and in intricate cases Registrar should make special arrangements	97
105.	The societies themselves should provide the staff required for their own supervision. It should be controlled by them and not by the Registrar ..	98
106.	A revision of the forms and system of Annual Returns is recommended ..	99

II.—Central Banks

No.		Para.
107.	The decentralization of supervisional work secured by Unions employing their own paid Secretary very valuable. The system of guaranteeing Unions employed in Burma as a link between Primary societies and Central Banks is full of promise and should be tried elsewhere. Such Unions should supply mutual supervision, assessment of credit, an agency for the recovery of loans and some form of joint guarantee for loans taken through them	101
108.	It is advisable that primary societies should seek loans and cash credits not from Joint Stock banks but from Central Banks which should be under co-operative control	102

Constitution and Management

No.		Para.
109.	Central Banks of which the shareholders are individuals should not be registered if they propose to grant loans to any other persons or institutions except to co-operative societies, or to undertake any outside banking business. The bye laws should include provisions limiting dividends, and the directors should maintain an independent staff for assessing the credit of borrowing societies. It is the Registrar's duty to see that the contract between the Central Bank and societies is not unfavourable to the latter. In any case this type of Central Bank should gradually disappear	105

No. PARA.

110. Central Banks of which membership is confined to societies, though desirable in themselves, are seldom competently managed, and do not leave room for the help of the middle classes, and should therefore be postponed to a later stage 106

111. Central Banks of which the membership includes both individuals and societies, will usually be best fitted to Indian conditions, but provision should be made for gradually reducing the number of non-working individual shareholders 107

112. The area served by a Central Bank should be defined and as far as possible should coincide with some administrative division, such as a district or tehsil, but should ordinarily be prepared within a reasonable time to deal with 200 or 250 societies 108

113. Provincial Banks may possibly open local branches in place of independent Central Banks in areas where guaranteeing Unions are well developed, but as a rule a system of Central Banks will be found more efficient .. 109

114. The management of co-operative finance being simpler than that of Joint Stock Banks, a Central Bank may be competently managed by lawyers and professional men, though trained bankers should be secured on the Board when available 110

115. The Manager and staff of a Central Bank, if paid, should be adequately paid. The Registrar should be satisfied that the supervising staff maintained by it is adequate and efficient. Such a staff may properly assist voluntary applicants in forming new societies 111

116. Central Banks which admit societies as shareholders should grant no loan to any credit society which has not subscribed to a share 112

117. Non-credit societies should only receive loans if they subscribe to an adequate number of shares and offer sufficient security. Central Banks should not finance insurance societies 112

118. There is no objection to Central Banks working as book banks, provided that they are exempt from undue responsibility for losses incurred in transit of funds 113

Composition of Capital

119. There is no objection to the discontinuation on the part of Central Banks of the practice of levying affiliation fees 114

120. All shares in a Central Bank should preferably be on one footing. But if it is absolutely necessary in order to attract local capital, the shares assigned to individuals may carry preference as regards dividend, but not cumulative dividend 117

No. PARA.

121. It is simpler if the shares held by societies and individuals are of uniform value 118

122. Societies should ordinarily be required to take shares in their Central Bank in proportion to the amount of their borrowings from it 119

123. Every shareholder in a Central Bank should have one vote only. If there is a difficulty in raising capital, Local Governments may properly authorise individuals to hold shares in excess of the statutory maximum of Rs. 1,000 but otherwise the limit fixed by the Act should be adhered to 120

124. All shares held by individuals should be fully paid up. Reserve liability is permissible in the case of shares held by societies 121

125. Reserve liability should be restricted to the face value of the shares and not to some multiple of it 122

126. The rate of dividend should be limited by rule. When most of the shares are held by societies, the maximum should be the same as the average lending rate. When the shareholders are chiefly individuals, it should not exceed the average rate paid on deposits by more than 2 or 3 per cent. Bonuses should be prohibited 125

127. Deposits by primary societies in Central Banks should consist of (1) excess deposits received by them and passed on, and (2) small deposits for short periods. Reserve funds should not be deposited in them 125

128. The opening of current accounts is deprecated, but in places where banking facilities do not exist it may be permitted. A low rate of interest not exceeding 2 per cent. should be paid on such accounts and the whole amount so held should be covered by cash or Government paper irrespective of fluid resources kept to cover other liabilities 127

129. Savings accounts may be opened on behalf of members and non-members provided that 75 per cent. of the amount so held is covered by cash or liquid investment, that the maximum accepted on one account is small, that notice of withdrawal is required and that they are not allowed to become current accounts 128

130. Central Banks should make every effort to obtain deposits sufficient to meet all their needs and may draw them from any area subject to such restrictions as may be found locally advisable 129

131. The average period of deposits should not be less than the average period in which loans are repayable. In arranging to repay deposits banks should not count on renewals or fresh deposits but rely on stipulated repayments of loans, and should spread receipts and payments as far as possible over the whole year 130

No. PARA.

132. To meet all charges entailed by our recommendations Central Banks require a 3 per cent. margin and primary societies the same 131

133. Special care should be taken to repay deposits punctually. The intentions of depositors with regard to renewals should be ascertained in advance.. 132

134. Central Banks should be allowed to regard the undrawn portion of any cash credit granted to them by a Presidency Bank as a fluid asset 134

135. Cash credits with Joint Stock Banks of recognised stability also constitute legitimate fluid resource. The Registrar should introduce Central Banks to Joint Stock Banks and furnish the latter with any information they require. Joint Stock Banks should be expected to examine the position for themselves and not to rely on Government support for repayment.. 135

136. Loans by Central Banks may with the Registrar's sanction be made to other Central Banks. Loans between Central Banks should cease as soon as a Provincial Bank is started 136

137. Banks should raise capital by means of long term deposits rather than debentures, unless in very special cases they are in a position to secure debentures on immovable property 137

138. Share capital *plus* reserve should be at least 12½ per cent. of total liabilities.. 138

Employment of Capital

139. Central Banks should not grant loans to individuals, nor should they undertake any outside banking work 139

140. A Central Bank should assess the credit of an affiliated society after re-examining and testing either by its own staff or through a union the society's own estimate of its borrowing power and the data on which the society has fixed the normal credit of its members and considering the society's needs and its own existing funds 140

141. The data required by a Central Bank should include a valuation of (1) the movable and immovable property of the members of a borrowing society and (2) the earning and saving capacity of the same members. These data should be used to check conclusions based on the character of the society and on its past record 141

142. Where a union exists the valuation mentioned above should be made by it; where not, by the Central Bank. Responsibility for the making of the valuation should be undivided. The Registrar should have power to require the reduction of the credit of any society 143

143. Loans should be sanctioned as far as possible all together at one or two main seasons in the year 144

No. PARA.

144. Central Banks should accept the opinions of Union with regard to the purpose and amounts of loans, but in case of insufficiency of funds to meet all claims may refer back to the Union 145

145. Subject to the condition that the terms of loans must depend on the terms for which deposits are held and that repayments due within a given period should exceed the deposits falling due within the same period, Central Banks may grant loans either recoverable in fixed instalments or on pro-notes nominally payable on demand, the society's repayments corresponding with the repayments made by members 146

146. Cash credits should be freely opened in favour of thoroughly well-managed societies 148

147. The security taken from a borrowing society should ordinarily be a pro-note. Shares held by societies in Central Banks should not be accepted as security for a loan though deposits may be 148

148. Rates charged on loans should be below bazar rates but should be high enough to allow of a wide margin. Rates may vary on a definite system with reference to the character of the borrowing society and the length of the loan 149

149. Money recovered from members should be at once available for repayment by a society to a Central Bank. The Central Bank should supervise recoveries but need not prepare lists of overdue loans 150

150. Central Banks should not ordinarily institute proceedings against defaulting societies in civil courts, but should exercise pressure through their staff and finally apply to the Registrar to take action under section 36 of the Act 151

151. After providing fully for fluid resources, a Central Bank may legitimately use balance (if any) of reserve fund in its own business 152

152. To meet contraction of credit Central Banks must keep fluid resources .. 153

153. These should be sufficient to meet half deposits due during the ensuing year, supposing no fresh deposits or renewals were made and no repayments received 155

154. Fluid resources only to be utilized when other sources fail 156

155. The fluid resources of a Bank must suffice to meet its own requirements and those of societies which have entered into arrangements with it .. 157

156. Standard of fluid resources to be readjusted quarterly 158

157. Superfluous funds to be passed on to Provincial Banks 159

No.		Para.
158.	In calculating net profits for purposes of distribution, Central Banks should always deduct interest accrued and overdue. Interest earned but not due should be shown separately in the profit and loss account	160
159.	The provision of contingent or bad debt fund is desirable in the case of banks which only place the legal maximum to reserve	161
160.	Building funds are permissible, provided that they are postponed to the provision of an adequate fluid resource. Where such buildings serve also as agricultural depots Government may properly contribute to their cost	161

Audit and Supervision

161.	The audit of the accounts of Central Banks may be entrusted to expert outside agencies or made by the Registrar's staff. Such banks should bear the expense of their own audit	162
162.	Central Banks should publish and distribute balance sheets and annual reports. They should contain more details than at present	163
163.	In addition to their annual returns, Central Banks should submit quarterly statements showing especially their liabilities to outside creditors and their progress in the formation of fluid resource	164

III.—Provincial Banks

164.	It is necessary that a Provincial Bank should be started in each of the major provinces	166
165.	The Provincial Banks should not be started on an extravagant or unnecessary large scale	169
166.	Share capital *plus* surplus assets fund should not be less than one-tenth of total funds borrowed from outside	169
167.	Societies and Central Banks should be represented in the management of a Provincial Bank and should be placed in such a position that they are able within a reasonable time to secure a majority of votes in the general meeting. At commencement individual shareholders may have a preponderating influence	170
168.	It is not, however, necessary that societies and Central Banks should have a dominating voice on the Directorate of the Provincial Bank	171
169.	Shares should ordinarily be of one class. Reserve liability not advisable on individual shares but unobjectionable on societies' shares	172
170.	All Central Banks should be affiliated to Provincial Banks but where there is no Central Bank a Provincial Bank may lend direct to primaries ..	173

No.		Para.
171.	Deposits fixed for longest possible terms should be secured	174
172.	Deposits at call should be covered to 75 per cent. of their amount by fluid resources	174
173.	No prohibition should be placed to savings deposit accounts	174
174.	Provincial Banks should not place too much reliance on cash credits, and should strive to accumulate good reserves and strong holdings of liquid securities in order to be more independent	175
175.	The Provincial Bank should maintain a fluid resource sufficient to cover all possible demands against itself for a period of one-third of the ensuing year together with all the possible liabilities to be met by any affiliated Central Banks for which it has undertaken to provide cover within the same period. For this service to Central Banks it should charge a commission or higher rate of interest. It will be found convenient to concentrate whole fluid resource at apex of system	176
176.	Provincial Banks should be prohibited from undertaking outside banking business, except in so far as it is necessary to deposit spare funds for short periods in outside institutions	177
177.	A Provincial Bank may legitimately be reluctant to lend its superfluous funds to another Provincial Bank unless the borrowing bank has sufficiently provided its credit worthiness, and the lending bank is able itself to examine and verify the financial position of the borrower	178
178.	A separate audit of the accounts by a Chartered or Incorporated Accountant authorised by the Registrar is desirable. The whole expense of it should be borne by the Bank. Further duties of supervision and enquiry appertain to Registrar and cost is debitable to Government	179
179.	Provincial Banks should submit the same returns as Central Banks; and should be supplied by the Registrar with copies of all returns received from affiliated Central Banks. They should publish and distribute to shareholders and depositors annual balance sheets and reports ..	180

Public Aid

Concessions

180.	When Sub-Registrars of deeds are paid by fees, Government should make good to them loss caused by the exemption of co-operative societies from registration fees	181
181.	Exemption from stamp duty on cheques of individual members having current accounts unnecessary	181

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182. Provided undue official influence is guarded against, co-operation ought not to be deprived of moral and financial support which Government servants give it 184

183. Deposits by Government officers in Provincial Banks should be absolutely unrestricted and in Central Bank also with the exception that in the district in which officers of the Indian Civil Service are serving they should be reported and withdrawn when opportunity offers 185

184. Membership of non-agricultural societies intended for Government servants only should be free to all Government servants 186

185. As regards other officers, it is a matter for local decision but with the exception suggested in paragraphs 186 and 190, officers of the Indian Civil Service, Provincial Civil Service and subordinate Civil Service should be prohibited from accepting without special sanction any post in the Managing Committee or Executive Staff of any co-operative society or bank 187

186. Devolution of powers of Registrar on District officers not recommended.. 189

187. District or Sub-divisional officers may be Chairmen with or without a place in executive committee of Central Banks but should not be given such a post *ex officio*. They should, however, have a formal right to attend meetings of shareholders or Directors and Local Governments may decide how best to arrange for this 190

Registrar, Development Commissioner, Advisory Officer

188. The post of Registrar should be made permanent 191

189. The Registrar should be a whole-time officer and his post should be included as a Collector's post in the cadre of the province and should carry a remunerative local allowance of Rs. 250. He should be eligible for executive promotion and be allowed to visit or fix his head-quarters at a hill station so as to keep in touch with Local Government in the non-touring season 193

190. He should draw travelling allowance at rates not less than the highest rate accorded to Collector working as head of a Department and should be allowed to visit other provinces to study other systems 194

191. Joint Registrar's posts should carry emoluments equal to those enjoyed by a Settlement Officer. An Assistant Collector of three to six years' service or a Deputy Collector possessed of qualifications necessary for a Joint Registrar should always be in training and the period of this training should be one year 195

192. Assistant Collectors while under training for survey, etc., should be taken to visit a few typical societies with competent instructors and the Collec-

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tor should take his assistants with him when inspecting co-operative societies on tour. Registrar should invite officers of the district to accompany him on inspection 196

193. District and divisional conferences under Collectors and Commissioners valuable. Larger conferences should not be so frequent that they become routine. Officers of Agricultural and connected departments should attend all classes of conferences 197

194. Registrar of Co-operation, Director of Agriculture, Director of Industries and Director of Fisheries (when that post is concerned with development of the industry) should all be co-ordinated under a single superior authority 198

195. That superior authority should, as soon as circumstances allow, be a whole-time officer and be called the Development Commissioner 199

196. Local Governments should issue a rule empowering Registrars to rescind any resolution or act of any officer, Committee or Society which deals with controversial opinions of a political or religious character. Positive objects of societies might be defined by rule on lines obtaining in Raiffeisen societies 201

197. An expert co-operative adviser with the Government of India recommended 202–203

Public deposits, agricultural advances, etc.

198. Though securities are not trust funds, this legal limitation would not, it is presumed, prevent use of Court of Wards funds for assisting societies constituted for the benefit of the Ward's estate or its tenantry 204

199. From a co-operative point of view all deposits whether from Courts of Wards or Local Bodies are welcome if permitted. Where risk falls partly on Government as in case of security pledged by one of its officers, it is justifiable to allow the officer to give it in shape of an investment in co-operative institutions 204

200. Grants by private individuals or local bodies appropriate in case of new developments like dairies and cattle breeding—so long as pauperization is avoided 205

201. Act XII of 1884 should be amended so as to allow of agricultural loans to be made to societies direct. Central Banks may also be utilized in distributing such loans to societies 207

202. Similar arguments apply to Land Improvement loans which can suitably be given to societies when an Improvement has to be made by joint exertions of several peasants. Societies should in that case reduce their rate of interest 208

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Financial aid by Government

203. Considerations governing financing of members of societies during famines. Necessity of working to the ordinary cycle of good and bad years .. 209

204. Power to utilize initial Government advances may be safely left to Local Governments and Registrars. Such advances need not be confined to credit societies: but if given to insurance societies should be given as suggested in paragraph 12 213

205. Government's attitude that it disclaims all financial responsibility and makes no definite promise of monetary report is sound in so far as it aims at establishing a self-contained and self-supporting co-operative movement by the rejection of a system of money doles and undue special concessions 216

206. Doubtful if the present Indian Co-operative Banking system can provide fluid resources to the extent necessary for stability and safety 217

207. Co-operative banking governed by same basic laws of finance as ordinary banking. Co-operative banking suffers from disability that pro-notes of its societies cannot be freely discounted and commercial banks cannot be expected to take up this business to any appreciable degree. Nor without guarantee from Government will Provincial Banks be able to raise capital sufficiently cheaply in all cases to solve the difficulty of maintaining adequate fluid resources 218

208. It is on facilities for rediscount that the problem of providing adequate fluid resources depends and in India there is not agency to do this .. 219

209. Failing commercial and Presidency Banks, the only alternative agency seems to be a State co-operative apex bank 220

APPENDIX IV

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